

SCBT FINANCIAL CORP  
Form 10-K  
March 17, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended: **December 31, 2007**

**Commission file number 001-12669**

**SCBT FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

**South Carolina**  
(State or other jurisdiction of incorporation)

**57-0799315**  
(IRS Employer Identification No.)

**520 Gervais Street**  
**Columbia, South Carolina**  
(Address of principal executive offices)

**29201**  
(Zip Code)

**(800) 277-2175**

(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12 (b) of the Act:

| <b>Title of each class</b>               | <b>Name of each exchange on which registered</b>                   |
|------------------------------------------|--------------------------------------------------------------------|
| Common stock, \$2.50 par value per share | The NASDAQ Global Select Market <sup>SM</sup>                      |
|                                          | Securities registered pursuant to Section 12 (g) of the Act: None. |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No o.

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer                       Accelerated filer                       Non-accelerated filer                       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No .

The aggregate market value of the voting stock of the registrant held by non-affiliates was \$314,977,000 based on the closing sale price of \$36.40 per share on June 29, 2007. For purposes of the foregoing calculation only, all directors and executive officers of the registrant have been deemed affiliates. The number of shares of common stock outstanding as of March 4, 2008 was 10,185,143.

**Documents Incorporated by Reference**

Portions of the Registrant's Proxy Statement for its 2008 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14.

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## SCBT Financial Corporation

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(1) All or portions of this item are incorporated by reference to the Registrant's Proxy Statement for its 2008 Annual Meeting of Shareholders.

## Forward-Looking Statements

*This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to those described below under "Risk Factors."*

## PART I

### Item 1. Business

SCBT Financial Corporation ("SCBT"), headquartered in Columbia, South Carolina, is a bank holding company incorporated in 1985 under the laws of South Carolina. We were formerly named First National Corporation until February 2004. We provide a wide range of banking services and products to our customers through our wholly-owned subsidiaries: South Carolina Bank and Trust, N.A. and South Carolina Bank and Trust of the Piedmont, N.A., both national banks that opened for business in 1932 and 1996, respectively. On November 30, 2007, we acquired our third banking subsidiary, The Scottish Bank, N.A. Our common stock trades on The NASDAQ Global Select Market<sup>SM</sup> under the ticker symbol "SCBT."

SCBT Financial Corporation is a legal entity separate and distinct from our subsidiaries. We coordinate the financial resources of the consolidated enterprise and thereby maintain financial, operation and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. SCBT Financial Corporation's operating revenues and net income are derived primarily from cash dividends received from its bank subsidiaries.

Our subsidiaries provide a full range of retail and commercial banking services, mortgage lending services, trust and investment services, and consumer finance loans through 50 financial centers in 16 South Carolina counties and Mecklenburg County of North Carolina, and have served the Carolinas for more than seventy-three years. At December 31, 2007, the Corporation had approximately \$2.6 billion in assets, \$2.1 billion in loans, \$1.9 billion in deposits, \$215.1 million in shareholders' equity, and a market capitalization of \$321.8 million.

We began operating in 1934 in Orangeburg, South Carolina and have maintained our ability to provide superior local service while also leveraging our size to offer many products more common to super-regional banks. We have pursued a growth strategy that relies primarily on organic growth, supplemented by the acquisition of select financial institutions or branches in certain market areas.

We have continued to expand our business in South Carolina and North Carolina, as highlighted below:

November 2007 acquired TSB Financial Corporation, Inc. ("TSB") and its wholly-owned subsidiary, The Scottish Bank. On December 3, 2007, we converted The Scottish Bank from a North Carolina state-chartered bank to a national association. The Scottish Bank, N.A. has four full-service branch locations and a loan production office ("LPO") in the following Charlotte, North Carolina market areas: SouthPark, Myers Park, Cotswold, Mint Hill, and Cornelius (the LPO).

October 2007 we merged The Mortgage Banc, Inc. into our lead banking subsidiary, South Carolina Bank and Trust.

August 2007 opened a full-service branch in Lexington, South Carolina to replace the limited-service branch.

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April 2007 opened a full-service branch at 46 Broad Street in Charleston, South Carolina to replace a limited-service branch at another Charleston location.

March 2007 replaced a loan production office in Myrtle Beach, South Carolina with a full-service branch in a banking location purchased in 2006.

October 2006 opened a limited-service branch in Irmo, South Carolina.

June 2006 opened our Indian Land full-service branch in Fort Mill, South Carolina as part of South Carolina Bank and Trust of the Piedmont. The branch was converted from a loan production office. We also opened a limited-service branch in Lexington, South Carolina.

April 2006 opened a loan production office in Daniel Island, South Carolina. Also in April, we converted our Devine Mortgage location to a full-service branch on Forest Drive in Columbia, South Carolina.

March 2006 merged SunBank, N.A. into our lead bank subsidiary, South Carolina Bank and Trust.

February 2006 opened a loan production office in Charleston, South Carolina as part of South Carolina Bank and Trust and converted the location to a limited-service branch in 2006. We moved the South Carolina Bank and Trust of the Piedmont loan production office in Fort Mill, South Carolina to a full-service branch location.

November 2005 expanded our footprint farther up the South Carolina coast with the acquisition of Sun Bancshares, Inc. and its subsidiary, SunBank. The acquisition provided us with two additional branches in Murrells Inlet and Georgetown, South Carolina. SunBank's third property was a loan production office located in Myrtle Beach, South Carolina.

July 2005 formed SCBT Capital Trust III for the purpose of issuing an aggregate of \$20 million of trust preferred securities.

May 2005 purchased Devine Mortgage, a small South Carolina mortgage originator.

April 2005 formed SCBT Capital Trust I and SCBT Capital Trust II for the purpose of issuing an aggregate of \$20 million of trust preferred securities.

April 2005 continued to expand in the western portion of South Carolina with our acquisition of New Commerce BanCorp and merged its subsidiary, New Commerce Bank, into our lead subsidiary bank. The acquisition provided us with two new branches in Simpsonville and Greenville, South Carolina. Both branches are located in one of the fastest growing markets in the state.

Our principal executive offices are located at 520 Gervais Street, Columbia, South Carolina 29201. Our mailing address at this facility is Post Office Box 1030, Columbia, South Carolina 29202 and our telephone number is (800) 277-2175.

### Available Information

We provide our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 on our website at [www.scbtonline.com](http://www.scbtonline.com). These filings are made accessible as soon as reasonably practicable after they have been filed electronically with the SEC. These filings are also accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, we make available on our website the following: (i) Corporate Governance Guidelines, (ii) Code of Conduct & Ethics, which applies to our directors and all employees, and (iii) the charters of the Audit, Compensation, and Corporate Governance & Nominating Committees of our Board of Directors. These materials are available in a printed format free of charge to shareholders who request them in writing. Please address your request to: Financial Management Division, SCBT Financial Corporation, 520

Gervais Street,

Columbia, South Carolina 29201. Statements of beneficial ownership of equity securities filed by directors, officers, and 10% or greater shareholders under Section 16 of the Securities Exchange Act of 1934 are also available through our website. The information on our website is not incorporated by reference into this report.

### **Territory Served and Competition**

We serve customers through our subsidiary banks located in the Carolinas: South Carolina Bank and Trust, South Carolina Bank and Trust of the Piedmont, and The Scottish Bank. Through our lead bank, South Carolina Bank and Trust, we conduct our business from forty financial centers in fourteen South Carolina counties. We conduct our Piedmont business from six financial centers in two South Carolina counties. We conduct our business from four financial centers in Mecklenburg County of North Carolina.

We compete in the highly competitive banking and financial services industry. Our profitability depends principally on our ability to effectively compete in the markets in which we conduct business. We expect competition in the industry to continue to increase as a result of consolidation among banking and financial services firms. Competition may further intensify as additional companies enter the markets where we conduct business and we enter mature markets in accordance with our expansion strategy.

We experience strong competition from both bank and non-bank competitors in certain markets. Broadly speaking, we compete with super-regional, smaller community banks, and non-traditional internet-based banks. We compete for deposits and loans with commercial banks, savings institutions, and credit unions. In addition, we compete with other financial intermediaries and investment alternatives such as mortgage companies, credit card issuers, leasing companies, finance companies, money market mutual funds, brokerage firms, governmental and corporation bonds, and other securities. Many of these non-bank competitors are not subject to the same regulatory oversight, affording them a competitive advantage in some instances. In many cases, our competitors have substantially greater resources, can provide higher lending limits, and offer certain services that we are unable to provide to our customers.

We encounter strong competition in making loans and attracting deposits. We compete with other financial institutions to offer customers the competitive interest rates on deposit accounts, the competitive interest rates charged on loans and other credit, and reasonable service charges. Our customers also consider the quality and scope of the services provided, the convenience of banking facilities, and relative lending limits in the case of loans to commercial borrowers. Our customers may also take into account the fact that other banks offer different services from those that we provide. The large national and super-regional banks may have significantly greater lending limits and may offer additional products. However, we believe that SCBT has been able to compete successfully with our competitors, regardless of their size. We do this by emphasizing customer service and by providing a wide variety of services.

### **Employees**

As of December 31, 2007, our subsidiaries had 701 full-time equivalent employees compared to 634 as of the same date in 2006. We consider our relationship with our employees instrumental to the success of our business. We provide our employees with a comprehensive employee benefit program which includes the following: group life, health and dental insurance, paid vacation, sick leave, educational opportunities, a cash incentive plan, a stock purchase plan, stock incentive, deferred compensation plans for officers and key employees, a defined benefit pension plan for employees hired on or before December 31, 2005 (except for employees acquired in the SunBank acquisition), and a 401(k) plan with company match.

## Regulation and Supervision

As a financial institution, we operate under a regulatory framework. The framework outlines a regulatory environment applicable to financial holding companies, bank holding companies, and their subsidiaries. Below, we have provided some specific information relevant to SCBT. The regulatory framework under which we operate is intended primarily for the protection of depositors and the Deposit Insurance Fund and not for the protection of our security holders and creditors. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions.

### *General*

The current regulatory environment for financial institutions includes substantial enforcement activity by the federal banking agencies, the U.S. Department of Justice, the Securities and Exchange Commission, and other state and federal law enforcement agencies, reflecting an increase in activity over prior years. This environment entails significant potential increases in compliance requirements and associated costs.

We are a bank holding company registered with the Board of Governors of the Federal Reserve System and are subject to the supervision of, and to regular inspection by, the Federal Reserve Board. Our banks are organized as national banking associations. They are subject to regulation, supervision, and examination by the Office of the Comptroller of the Currency (the "OCC"). In addition, SCBT and our banks are subject to regulation (and in certain cases examination) by the Federal Deposit Insurance Corporation (the "FDIC"), other federal regulatory agencies, the South Carolina State Board of Financial Institutions (the "State Board") and the North Carolina Office of the Commissioner of Banks. The following discussion summarizes certain aspects of banking and other laws and regulations that affect SCBT and its subsidiaries.

Under the Bank Holding Company Act (the "BHC Act"), our activities and those of our subsidiaries are limited to banking, managing or controlling banks, furnishing services to or performing services for our subsidiaries, or any other activity which the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The BHC Act requires prior Federal Reserve Board approval for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than 5% of the voting shares or substantially all the assets of any bank, or for a merger or consolidation of a bank holding company with another bank holding company. The BHC Act also prohibits a bank holding company from acquiring direct or indirect control of more than 5% of the outstanding voting stock of any company engaged in a non-banking business unless such business is determined by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto. Further, under South Carolina law, it is unlawful without the prior approval of the State Board for any South Carolina bank holding company (i) to acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank or any other bank holding company, (ii) to acquire all or substantially all of the assets of a bank or any other bank holding company, or (iii) to merge or consolidate with any other bank holding company.

The Graham-Leach-Bliley Act amended a number of federal banking laws affecting SCBT and our banks. In particular, the Graham-Leach-Bliley Act permits a bank holding company to elect to become a "financial holding company," provided certain conditions are met. A financial holding company, and the companies it controls, are permitted to engage in activities considered "financial in nature" as defined by the Graham-Leach-Bliley Act and Federal Reserve Board interpretations (including, without limitation, insurance and securities activities), and therefore may engage in a broader range of activities than permitted by bank holding companies and their subsidiaries. We remain a bank holding company, but may at some time in the future elect to become a financial holding company.



***Interstate Banking***

National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. In July 1994, South Carolina enacted legislation which effectively provided that, after June 30, 1996, out-of-state bank holding companies may acquire other banks or bank holding companies in South Carolina, subject to certain conditions. Further, pursuant to the Riegel-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking and Branching Act"), a bank holding company became able to acquire banks in states other than its home state, beginning in September 1995, without regard to the permissibility of such acquisition under state law, subject to certain exceptions. The Interstate Banking and Branching Act also authorized banks to merge across state lines, thereby creating interstate branches, unless a state, prior to the July 1, 1997 effective date, determined to "opt out" of coverage under this provision. In addition, the Interstate Banking and Branching Efficiency Act authorized a bank to open new branches in a state in which it does not already have banking operations if such state enacted a law permitting such "de novo" branching.

Effective July 1, 1996, South Carolina law was amended to permit interstate branching through acquisitions but not de novo branching by an out-of-state bank. We believe that the foregoing legislation has increased takeover activity of South Carolina financial institutions by out-of-state financial institutions.

North Carolina has opted-in to the provision of the Interstate Banking and Branching Act that allows out-of-state banks to branch into their state by establishing a de novo branch in the state, but only on a reciprocal basis. This means that an out-of-state bank may establish a de novo branch in North Carolina only if the home state of such bank would allow North Carolina banks (including national banks with their home office in North Carolina) to establish de novo branches in that home state under substantially the same terms as allowed in North Carolina. Because some states impose greater limits on de novo branching by out-of-state banks, this provides a limited barrier of entry into the North Carolina banking market, which protects us from a segment of potential competition. However, for those states that have also opted-in to the interstate branching legislation, our subsidiary The Scottish Bank, N.A., which has its home office in North Carolina, could establish a de novo branch in those states with prior OCC approval.

***Obligations of Holding Company to its Subsidiary Banks***

Under the policy of the Federal Reserve Board, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it otherwise might not desire or be able to do so. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), to avoid receivership of its insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" within the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

In addition, the "cross-guarantee" provisions of the Federal Deposit Insurance Act, as amended ("FDIA"), require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company, but is

subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The FDIA also provides that amounts received from the liquidation or other resolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of the Banks.

Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Under the National Bank Act, if the capital stock of a national bank is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the bank's shareholders, pro rata, and if any such assessment is not paid by any shareholder after three months notice, to sell the stock of such shareholder to make good the deficiency.

### *Capital Adequacy*

The various federal bank regulators, including the Federal Reserve Board and the OCC, have adopted risk-based capital requirements for assessing bank holding company and bank capital adequacy. These standards define what qualifies as capital and establish minimum capital standards in relation to assets and off-balance sheet exposures, as adjusted for credit risks. Capital is classified into tiers. For bank holding companies, Tier 1 or "core" capital consists primarily of common and qualifying preferred shareholders' equity, less certain intangibles and other adjustments ("Tier 1 Capital"). Tier 2 capital consists primarily of the allowance for possible loan losses (subject to certain limitations) and certain subordinated and other qualifying debt ("Tier 2 Capital"). A minimum ratio of total capital to risk-weighted assets of 8.00% is required and Tier 1 Capital must be at least 50% of total capital. The Federal Reserve Board also has adopted a minimum leverage ratio of Tier 1 Capital to adjusted average total assets (not risk-weighted) of 3%. The 3% Tier 1 Capital to average total assets ratio constitutes the leverage standard for bank holding companies and national banks, and is used in conjunction with the risk based ratio in determining the overall capital adequacy of banking organizations.

The Federal Reserve Board and the OCC have emphasized that the foregoing standards are supervisory minimums and that an institution would be permitted to maintain such levels of capital only if it had a composite rating of "1" under the regulatory rating systems for bank holding companies and banks. All other bank holding companies are required to maintain a leverage ratio of 3% plus at least 1% to 2% of additional capital. These rules further provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels and comparable to peer group averages, without significant reliance on intangible assets. The Federal Reserve Board continues to consider a "tangible Tier 1 leverage ratio" in evaluating proposals for expansion or new activities. The tangible Tier 1 leverage ratio is the ratio of a banking organization's Tier 1 Capital less all intangibles, to total assets, less all intangibles. The Federal Reserve Board has not advised us of any specific minimum leverage ratio applicable to SCBT. As of

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December 31, 2007 and 2006, our subsidiary banks had the following leverage ratios and total risk-based capital:

| (In percent)                                  | December 31, |       |
|-----------------------------------------------|--------------|-------|
|                                               | 2007         | 2006  |
| <b>Tier 1 Leverage Ratios</b>                 |              |       |
| SCBT Financial Corporation                    | 8.42         | 8.11  |
| South Carolina Bank and Trust                 | 7.75         | 8.02  |
| South Carolina Bank and Trust of the Piedmont | 7.53         | 7.56  |
| The Scottish Bank                             | 9.66         | n/a   |
| <b>Total Risk-Based Capital</b>               |              |       |
| SCBT Financial Corporation                    | 10.89        | 11.36 |
| South Carolina Bank and Trust                 | 10.76        | 11.18 |
| South Carolina Bank and Trust of the Piedmont | 10.71        | 11.12 |
| The Scottish Bank                             | 10.62        | n/a   |

The FDICIA, among other items, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and requires the respective Federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. The FDICIA also imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan (see "Obligations of Holding Company to its Subsidiary Banks," above). In addition, the FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality, and executive compensation. The FDICIA permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by the FDICIA, using the total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a "well capitalized" institution must have a Tier 1 capital ratio of at least 6%, a total risk-based capital ratio of at least 10%, a Tier 1 leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio of at least 4%, a total risk-based capital ratio of at least 8%, and a Tier 1 leverage ratio of at least 4% (or 3% in some cases). Under these guidelines, each Bank is considered well capitalized.

Banking agencies have also adopted final regulations which mandate that regulators take into consideration (i) concentration of credit risk, (ii) interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance-sheet position), and (iii) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. That evaluation will be made as a part of the institution's regular safety and soundness examination. In addition, the banking agencies have amended their regulatory capital guidelines to incorporate a measure for market risk. In accordance with the amended guidelines, if we were to engage in significant trading activity (as defined in the amendment) we must incorporate a measure for market risk in our respective regulatory capital calculations effective for reporting periods after January 1, 1998.

***Payment of Dividends***

SCBT is a legal entity separate and distinct from its subsidiaries. Funds for cash distributions to our shareholders are derived primarily from dividends received from our bank subsidiaries. Each of our banks is subject to various general regulatory policies and requirements relating to the payment of dividends. Any restriction on the ability of our banks to pay dividends will indirectly restrict the ability of SCBT to pay dividends.

The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year will exceed the total of its retained net profits for that year combined with its retained net profits for the two preceding years, less any required transfers to surplus. In addition, national banks can only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed statutory bad debts in excess of the bank's allowance for loan losses. Further, if in the opinion of the OCC a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the OCC may require, after notice and a hearing, that such bank cease and desist from such practice. The OCC has indicated that paying dividends that deplete a national bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve Board, the OCC, and the FDIC have issued policy statements which provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

In addition to the foregoing, the ability of SCBT and its banks to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under the FDICIA, as described above. The right of SCBT, its shareholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to the prior claims of creditors of SCBT's subsidiaries.

***Certain Transactions by SCBT and its Affiliates***

Various legal limitations place restrictions on the ability of the banks to lend or otherwise supply funds to SCBT and its affiliates. The Federal Reserve Act limits a bank's "covered transactions," which include extensions of credit, with any affiliate to 10% of such bank's capital and surplus. All covered transactions with all affiliates cannot in the aggregate exceed 20% of a bank's capital and surplus. All covered and exempt transactions between a bank and its affiliates must be on terms and conditions consistent with safe and sound banking practices, and banks and their subsidiaries are prohibited from purchasing low-quality assets from the bank's affiliates. Also, the Federal Reserve Act requires that all of a bank's extensions of credit to an affiliate be appropriately secured by acceptable collateral, generally United States government or agency securities. In addition, the Federal Reserve Act limits covered and other transactions among affiliates to terms and circumstances, including credit standards, that are substantially the same or at least as favorable to a bank holding company, a bank or a subsidiary of either as prevailing at the time for transactions with unaffiliated companies.

***Insurance of Deposits***

Deposits at the bank are insured by the Deposit Insurance Fund as administered by the FDIC, up to the applicable limits established by law generally \$100,000 per accountholder and \$250,000 for certain retirement accountholders. As FDIC-insured institutions, our banks are subject to insurance assessments imposed by the FDIC. Under current law, the insurance assessment to be paid by FDIC-insured institutions is as specified in a schedule required to be issued by the FDIC that specifies, at semi-annual intervals, target reserve ratios designed to increase the FDIC insurance fund's reserve ratio to 1.25% of estimated insured deposits (or such higher ratio as the FDIC may determine in accordance with the statute) in 15 years. Further, the FDIC is authorized to impose one or more

special assessments in any amount deemed necessary to enable repayment of amounts borrowed by the FDIC from the United States Department of the Treasury. The actual assessment to be paid by each FDIC-insured institution is based on the institution's assessment risk classification, which is determined based on whether the institution is considered "well capitalized," "adequately capitalized" or "undercapitalized," as such terms have been defined in applicable federal regulations, and whether such institution is considered by its supervisory agency to be financially sound or to have supervisory concerns (see "Capital Adequacy" above). As a result of the current provisions of federal law, the assessment rates on deposits could increase over present levels. Based on the current financial condition and capital levels of our banks, we do not expect that the current FDIC risk-based assessment schedule will have a material adverse effect on the earnings of our banks in 2008.

***International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001***

On October 26, 2001, the President signed the USA Patriot Act of 2001 into law. This act contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "IMLAFA"). The IMLAFA contains anti-money laundering measures affecting insured depository institutions, broker-dealers, and certain other financial institutions. The IMLAFA requires U.S. financial institutions to adopt new policies and procedures to combat money laundering. Further, the Act grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institution's operations. We have adopted policies and procedures to comply with the provisions of the IMLAFA.

***Other Laws and Regulations***

Interest and certain other charges collected or contracted for by our banks are subject to state usury laws and certain federal laws concerning interest rates. Our banks' operations are also subject to certain federal laws applicable to credit transactions, such as the following:

Federal Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers,

Community Reinvestment Act requiring financial institutions to meet their obligations to provide for the total credit needs of the communities they serve (which includes the investment of assets in loans to low- and moderate-income borrowers),

Home Mortgage Disclosure Act of 1975 requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves,

Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit,

Fair Credit Reporting Act of 1978 governing the use and provision of information to credit reporting agencies,

Fair Debt Collection Act governing the manner in which consumer debts may be collected by collection agencies, and

rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of our banks are also subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

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From time to time, bills come before the United States Congress and in the North Carolina and South Carolina state legislatures that in certain cases contain wide-ranging proposals for altering the structure, regulation, and competitive relationships of financial institutions. Among such bills are proposals to prohibit banks and bank holding companies from conducting certain types of activities, to subject banks to increased disclosure and reporting requirements, to alter the statutory separation of commercial and investment banking, and to further expand the powers of banks, bank holding companies and competitors of banks. We cannot predict whether or in what form any of these proposals will be adopted or the extent to which our business may be affected.

### *Fiscal and Monetary Policy*

Banking is a business that depends largely on interest rate differentials. In general, the difference between the interest we pay on our deposits and other borrowings, and the interest we receive on our loans and securities holdings, constitutes the major portion of our banks' earnings. Thus, our earnings and growth will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve Board. The Federal Reserve Board regulates, among other things, the supply of money through various means, including open-market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve Board, and the reserve requirements on deposits. We cannot predict the nature and timing of any changes in such policies and their impact on our business.

### *Executive Officers of SCBT*

Executive officers of SCBT are elected by the Board of Directors annually and serve at the pleasure of the Board of Directors. The executive officers and their ages, positions with SCBT, past five year employment history and terms of office as of March 1, 2008, are as follows:

| Name (age)               | Position with SCBT and Five Year History                                                                                                   | With SCBT Since |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Robert R. Hill, Jr. (41) | President, Chief Executive Officer and Director<br>President and Chief Operating Officer of<br>South Carolina Bank and Trust (2004 - 1999) | 1995            |
| John C. Pollok (42)      | Senior Executive Vice President,<br>Chief Financial Officer and Chief Operating Officer                                                    | 1996            |
| Joe E. Burns (53)        | Senior Executive Vice President and<br>Chief Credit Officer                                                                                | 2000            |
| Richard C. Mathis (57)   | Executive Vice President and Chief Risk Officer<br>Chief Financial Officer (2007 - 2000)                                                   | 2000            |
| John F. Windley (55)     | President, South Carolina Bank and Trust<br>Regional President, South Carolina Bank and Trust (2006 - 2002)                                | 2002            |
| Thomas S. Camp (56)      | President and Chief Executive Officer,<br>South Carolina Bank and Trust of the Piedmont                                                    | 1998            |
| Dane H. Murray (58)      | Senior Executive Vice President and<br>Division Head of Lowcountry and Orangeburg Regions                                                  | 1971            |

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with the directors or officers of SCBT acting solely in their capacities as such.

**Item 1A. Risk Factors**

Our business operations may be adversely affected by certain risk factors outside of our control. We believe the risk factors listed could materially and adversely affect our business, financial condition or results of operations. We may also be adversely affected by additional risks and uncertainties or those that we believe are currently immaterial to our business operations. In such cases, you could lose part or all of your investment.

**General Business Risks**

*Our net interest income may decline based on the interest rate environment.*

We depend on our net interest income to drive profitability. Differences in volume, yields or interest rates and differences in income earning products such as interest-earning assets and interest-bearing liabilities determine our net interest income. We are exposed to changes in general interest rate levels and other economic factors beyond our control. Net interest income may decline if:

In a declining interest rate environment, more interest-earning assets than interest-bearing liabilities re-price or mature, or

In a rising interest rate environment, more interest-bearing liabilities than interest-earning assets re-price or mature.

Our net interest income may decline based on our exposure to a difference in short-term and long-term interest rates. If the difference between the interest rates shrinks or disappear; the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income. In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re-price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.

*We are exposed to the possibility that more prepayments may be made by customers to pay down loan balances, which could reduce our interest income and profitability.*

Prepayment rates stem from consumer behavior, conditions in the housing and financial markets, general United States economic conditions, and the relative interest rates on fixed-rate and adjustable-rate loans. Therefore, changes in prepayment rates are difficult to predict. Recognition of deferred loan origination costs and premiums paid in originating these loans are normally recognized over the contractual life of each loan. As prepayments occur, the rate at which net deferred loan origination costs and premiums are expensed will accelerate. The effect of the acceleration of deferred costs and premium amortization may be mitigated by prepayment penalties paid by the borrower when the loan is paid in full within a certain period of time, which varies between loans. If prepayment occurs after the period of time when the loan is subject to a prepayment penalty, the effect of the acceleration of premium and deferred cost amortization is no longer mitigated. We recognize premiums paid on mortgage-backed securities as an adjustment from interest income over the expected life of the security based on the rate of repayment of the securities. Acceleration of prepayments on the loans underlying a mortgage-backed security shortens the life of the security, increases the rate at which premiums are expensed and further reduces interest income. We may not be able to reinvest loan and security prepayments at rates comparable to the prepaid instrument particularly in a period of declining interest rates.

***We may not be able to adequately anticipate and respond to changes in market interest rates.***

We may be unable to anticipate changes in market interest rates, which are affected by many factors beyond our control including but not limited to inflation, recession, unemployment, money supply, monetary policy, and other changes that affect financial markets both domestic and foreign. Our net interest income is affected not only by the level and direction of interest rates, but also by the shape of the yield curve and relationships between interest sensitive instruments and key driver rates, as well as balance sheet growth, customer loan and deposit preferences, and the timing of changes in these variables. In the event rates increase, our interest costs on liabilities may increase more rapidly than our income on interest earning assets, thus a deterioration of net interest margins. As such, fluctuations in interest rates could have significant adverse effects on our financial condition and results of operations.

***Our estimated allowance for loan losses may be inadequate and an increase in the allowance would reduce earnings.***

We are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to assure full repayment. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results and ability to meet obligations. The volatility and deterioration in foreign and domestic markets may also increase our risk for credit losses. The composition of our loan portfolio, primarily secured by real estate, reduces loss exposure. At December 31, 2007, we had approximately 12,000 loans secured by real estate with an average loan balance of approximately \$129,000. We evaluate the collectability of our loan portfolio and provide an allowance for loan losses that we believe to be adequate based on a variety of factors including but not limited to: the risk characteristics of various classifications of loans, previous loan loss experience, specific loans that have loss potential, delinquency trends, estimated fair market value of the collateral, current economic conditions, the views of our regulators, and geographic and industry loan concentrations. If our evaluation is incorrect and borrower defaults cause losses that exceed our allowance for loan losses, our earnings could be significantly and adversely affected. No assurance can be given that the allowance will be adequate to cover loan losses inherent in our portfolio. We may experience losses in our loan portfolios or perceive adverse conditions and trends that may require us to significantly increase our allowance for loan losses in the future, a decision that would reduce earnings.

***We are exposed to higher credit risk by commercial real estate, commercial business, and construction lending.***

Commercial real estate, commercial business and construction lending usually involves higher credit risks than that of single-family residential lending. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, as well as the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest) and the availability of permanent take-out financing. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.



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Commercial business loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the collateral securing the loans have the following characteristics: (i) depreciate over time, (ii) difficult to appraise and liquidate, and (iii) fluctuate in value based on the success of the business.

Commercial real estate, commercial business, and construction loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review, and monitoring cannot eliminate all of the risks related to these loans.

***A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt our business.***

A significant portion of our loan portfolio is secured by real estate. As of December 31, 2007, approximately 81.3% of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A weakening of the real estate market in our primary market area could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Acts of nature, including hurricanes, tornados, earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition.

***Our business is predominately in two states, South Carolina, and the Mecklenburg County of North Carolina; therefore, adverse economic conditions in South Carolina and this North Carolina County could negatively impact results from operations and financial condition.***

Because of our concentration of business in the same geographical region, adverse economic conditions in that particular region could make it more difficult to attract deposits and could cause higher rates of loss and delinquency on our loans than if the loans were more geographically diversified.

***We could experience a loss due to competition with other financial institutions.***

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. The financial services industry has and is experiencing an ongoing trend towards consolidation in which fewer large national and regional banks and firms are replacing many smaller and more local banks and firms. These larger firms hold a large accumulation of assets. These larger institutions have significantly greater resources and a wider geographic presence or greater accessibility. In some instances, these banks operate without the traditional brick and mortar facilities that restrict geographic presence. Some competitors are able to offer more services, more favorable pricing or greater customer convenience than SCBT. In addition, competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues among large banks, we expect other smaller institutions to try to compete in the markets we serve.

Technological developments have allowed competitors, including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to our target customers. If we are unable to implement, maintain and use such technologies effectively, we may not be able to offer products or achieve cost-efficiencies necessary

to compete in the industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

***We are exposed to the possibility of technology failure.***

We rely on our computer systems and the technology of outside service providers. Our daily operations depend on the operational effectiveness of their technology. We rely on our systems to accurately track and record our assets and liabilities. If our computer systems or outside technology sources become unreliable, fail, or experience a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our business operations and financial condition.

***We are exposed to a possible loss of our employees and critical management team.***

We are dependent on the ability and experience of a number of key management personnel who have substantial experience with our operations, the financial services industry, and the markets in which we offer products and services. The loss of one or more senior executives or key managers may have an adverse effect on our operations. Also, as we continue to grow operations, our success depends on our ability to continue to attract, manage, and retain other qualified middle management personnel. We cannot guarantee that we will continue to attract or retain such personnel.

***We are exposed to a need for additional capital resources for the future and the fact that these capital resources may not be available when needed or at all.***

We may need to incur additional debt or equity financing in the future to make strategic acquisitions or investments. We cannot provide assurance that such financing will be available to us on acceptable terms or at all.

**Legal and Regulatory Risks**

***We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to receive dividends from our bank subsidiaries.***

We are subject to Federal Reserve Board regulation. Our banks are subject to extensive regulation, supervision, and examination by their primary federal regulator, the Office of the Comptroller of the Currency ("OCC"), and by the Federal Deposit Insurance Corporation ("FDIC"), the regulating authority that insures customer deposits. Also, as a member of the Federal Home Loan Bank ("FHLB"), our banks must comply with applicable regulations of the Federal Housing Finance Board and the FHLB. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. Our banks' activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A sufficient claim against our subsidiaries under these laws could have a material adverse effect on our results of operations.

***We are exposed to changes in the regulation of financial services companies.***

Proposals for further regulation of the financial services industry are continually being introduced in the Congress of the United States of America, the General Assembly of the State of South Carolina, and the General Assembly of the State of North Carolina. The agencies regulating the financial services industry also periodically adopt changes to their regulations. For example, regulation of government-sponsored entities has been receiving significant attention recently. It is possible that one or more legislative proposals may be adopted or regulatory changes may be made that would have an adverse effect on our business.

*We are exposed to declines in the value of qualified pension plan assets or unfavorable changes in laws or regulations that govern pension plan funding, which could require us to provide significant amounts of funding for our qualified pension plan.*

We expect to make material cash contributions to our qualified defined benefit pension plan in the near and long term. A significant decline in the value of qualified pension plan assets in the future or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding. As a result, we may be required to fund our qualified defined benefit pension plan with a greater amount of cash from operations, perhaps by an additional material amount.

#### **Other Risk Factors**

*We may decide to make future acquisitions, which could dilute current shareholders' stock ownership and we may become more susceptible to adverse economic events.*

In accordance with our strategic plan, we continually evaluate opportunities to acquire other banks and/or branch locations to expand SCBT. As a result, we may be involved in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity.

Our acquisition activities could be material to SCBT. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders' ownership interest in SCBT. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In those events, we could become more susceptible to economic downturns and competitive pressures.

*We may be exposed to difficulties in combining the operations of acquired entities such as TSB into our own operations, which may prevent us from achieving the expected benefits from our acquisition activities.*

We may not be able to fully achieve the strategic objectives and operating efficiencies that we anticipate in our acquisition activities. Inherent uncertainties exist in integrating the operations of an acquired entity. In addition, the markets and industries in which SCBT and our potential acquisition targets operate are highly competitive. We may lose customers or the customers of acquired entities as a result of an acquisition. We also may lose key personnel from the acquired entity as a result of an acquisition. We may not discover all known and unknown factors when examining a company for acquisition during the due diligence period. These factors could produce unintended and unexpected consequences for us. Undiscovered factors as a result of acquisition, pursued by non-related third party entities, could bring civil, criminal, and financial liabilities against us, our management, and the management of those entities acquired. These factors could contribute to SCBT not achieving the expected benefits from its acquisitions within desired time frames, if at all.

*Our stock price may be volatile.*

Our stock price has been volatile in the past and several factors could cause the price to fluctuate substantially in the future. These factors include but are not limited to: actual or anticipated variations in earnings, changes in analysts' recommendations or projections, our announcement of developments related to our businesses, operations and stock performance of other companies deemed to be peers, new technology used or services offered by traditional and non-traditional competitors, news reports of trends, concerns, irrational exuberance on the part of investors, and other issues related to the financial services industry. Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. General market declines or market volatility in the future could adversely affect the price of SCBT's common stock, and the current market price may not be indicative of future market prices.

*The accuracy of our financial statements and related disclosures could be affected because we are exposed to conditions or assumptions different from the judgments, assumptions or estimates used in our critical accounting policies.*

The preparation of financial statements and related disclosure in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires us to make judgments, assumptions, and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, included in this document, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" by us because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, such events or assumptions could have a material impact on our audited consolidated financial statements and related disclosures.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our corporate headquarters are located in a four-story facility, located at 520 Gervais Street, Columbia, South Carolina. The Midlands region lead branch of South Carolina Bank and Trust is also located in this 57,000 square-foot building. The main offices of South Carolina Bank and Trust are in a four-story facility with approximately 48,000 square feet of space for operating and administrative purposes, located at 950 John C. Calhoun Drive, S.E., Orangeburg, South Carolina. South Carolina Bank and Trust also owns twenty-eight other properties and leases twenty-four properties, all of which are used, substantially, as branch locations or for housing other operational units.

South Carolina Bank and Trust of the Piedmont owns a 12,000 square foot office building that serves as its main office, located at 1127 Ebenezer Road, Rock Hill, South Carolina. The bank owns three additional properties and leases three others, all of which are used as branches.

The Scottish Bank leases a 7,000 square foot office building that serves as its main office, located at 6525 Morrison Boulevard, Charlotte, North Carolina. The bank owns one property and leases four others, which are used as branches and a loan production office.

Although the properties owned and leased are generally considered adequate, we have a continuing program of modernization, expansion, and when necessary, occasional replacement of facilities.

**Item 3. Legal Proceedings**

We are not a party to, nor is any of our property the subject of, any pending material proceeding other than those that may occur in our ordinary course of business as of December 31, 2007 and the date of this Form 10-K.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of shareholders in the fourth quarter of 2007.

## PART II

## Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a)

The table below describes historical information regarding our common equity securities:

|                                                                                     | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|-------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Stock Performance</b>                                                            |             |             |             |             |             |
| Dividends per share                                                                 | \$ 0.68     | \$ 0.68     | \$ 0.68     | \$ 0.65     | \$ 0.63     |
| Dividend payout ratio                                                               | 29.17%      | 30.88%      | 34.29%      | 36.66%      | 33.98%      |
| Dividend yield (based on the average of the high and low for the year)              | 1.94%       | 1.81%       | 2.14%       | 2.06%       | 2.47%       |
| Price/earnings ratio (based on year-end stock price and diluted earnings per share) | 13.65x      | 19.39x      | 17.29x      | 20.49x      | 16.49x      |
| Price/book ratio (end of year)                                                      | 1.50x       | 2.25x       | 1.95x       | 2.27x       | 2.05x       |
| <b>Common Stock Statistics</b>                                                      |             |             |             |             |             |
| Stock price ranges:                                                                 |             |             |             |             |             |
| High                                                                                | \$ 41.84    | \$ 42.93    | \$ 34.94    | \$ 37.61    | \$ 30.71    |
| Low                                                                                 | 28.29       | 32.38       | 28.50       | 25.57       | 20.38       |
| Close                                                                               | 31.67       | 41.73       | 33.42       | 33.57       | 28.58       |
| Volume traded on exchanges                                                          | 4,359,700   | 2,510,900   | 2,202,700   | 1,711,500   | 1,436,000   |
| As a percentage of average shares outstanding                                       | 42.91%      | 28.89%      | 27.09%      | 21.23%      | 17.81%      |
| Earnings per share, basic                                                           | \$ 2.33     | \$ 2.17     | \$ 1.95     | \$ 1.66     | \$ 1.74     |
| Earnings per share, diluted                                                         | 2.32        | 2.15        | 1.93        | 1.64        | 1.73        |
| Book value per share                                                                | 21.17       | 18.57       | 17.17       | 14.77       | 13.91       |

In reference to the table above, per share data have been retroactively adjusted to give effect to a 5% common stock dividend paid to shareholders of record on December 20, 2004 and a 5% common stock dividend paid to shareholders of record on March 9, 2007.

## Quarterly Common Stock Price Ranges and Dividends

| Quarter | 2007     |          |          | 2006     |          |          |
|---------|----------|----------|----------|----------|----------|----------|
|         | High     | Low      | Dividend | High     | Low      | Dividend |
| 1st     | \$ 40.84 | \$ 34.99 | \$ 0.17  | \$ 36.08 | \$ 33.00 | \$ 0.17  |
| 2nd     | 38.00    | 35.18    | 0.17     | 35.70    | 32.38    | 0.17     |
| 3rd     | 37.25    | 28.29    | 0.17     | 39.94    | 32.50    | 0.17     |
| 4th     | 37.65    | 28.86    | 0.17     | 42.93    | 36.20    | 0.17     |

As of March 4, 2008, we had issued and outstanding 10,185,143 shares of common stock which were held by approximately 5,450 shareholders of record. Our common stock trades on The NASDAQ Global Select Market<sup>SM</sup> under the symbol "SCBT."

We pay cash dividends to SCBT shareholders from our assets, which are provided primarily by dividends paid to SCBT by our bank subsidiaries. Certain restrictions exist regarding the ability of our subsidiaries to transfer funds to SCBT in the form of cash dividends, loans or advances. The approval of the OCC is required to pay dividends in excess of our banks' respective retained net profits for the current year plus retained net profits (net profits less dividends paid) for the preceding two years, less any required transfers to surplus. As of December 31, 2007, approximately \$35.9 million of our banks'

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retained earnings were available for distribution to SCBT as dividends without prior regulatory approval. For the year ended December 31, 2007, our banks paid dividends of approximately \$16.2 million to SCBT. This amount includes \$10.0 million in dividends paid upstream by South Carolina Bank and Trust, N.A. to SCBT as a special dividend to provide cash for the acquisition and payment of merger costs related to the acquisition of TSB. Excluding the special dividend, we anticipate that we will continue to pay comparable cash dividends from the bank subsidiaries to SCBT in the future.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities:

In February 2004, we announced a program with no formal expiration date to repurchase up to 250,000 of our common shares. The following table reflects share repurchase activity during the fourth quarter of 2007:

| Period                   | (a) Total Number of<br>Shares (or Units)<br>Purchased | (b) Average<br>Price Paid per<br>Share (or Unit) | (c) Total Number of<br>Shares (or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | (d) Maximum<br>Number (or<br>Approximate Dollar<br>Value) of Shares (or<br>Units) that May Yet<br>Be Purchased Under<br>the Plans or<br>Programs |
|--------------------------|-------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| October 1 - October 31   |                                                       | \$                                               |                                                                                                             | 147,872                                                                                                                                          |
| November 1 - November 30 |                                                       |                                                  |                                                                                                             | 147,872                                                                                                                                          |
| December 1 - December 31 |                                                       |                                                  |                                                                                                             | 147,872                                                                                                                                          |
| <b>Total</b>             |                                                       |                                                  |                                                                                                             | 147,872                                                                                                                                          |

**Item 6. Selected Financial and Quantitative Data**

The following table presents selected financial and quantitative data for the five years ended December 31:

| (Dollars in thousands)                                      | 2007         | 2006         | 2005         | 2004         | 2003         |
|-------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Financial Data</b>                                       |              |              |              |              |              |
| Assets                                                      | \$ 2,597,183 | \$ 2,178,413 | \$ 1,925,856 | \$ 1,436,977 | \$ 1,197,692 |
| Loans, net of unearned income*                              | 2,083,047    | 1,760,830    | 1,535,901    | 1,153,230    | 938,760      |
| Investment securities                                       | 258,509      | 210,391      | 182,744      | 165,446      | 152,009      |
| Deposits                                                    | 1,927,889    | 1,706,715    | 1,473,289    | 1,171,313    | 947,399      |
| Nondeposit borrowings                                       | 440,046      | 293,521      | 294,420      | 141,136      | 133,017      |
| Shareholders' equity                                        | 215,065      | 161,888      | 148,403      | 118,798      | 112,349      |
| Number of locations                                         | 50           | 45           | 41           | 34           | 32           |
| Full-time equivalent employees                              | 701          | 634          | 590          | 513          | 514          |
| Number of common shares outstanding                         | 10,160,432   | 8,719,146    | 8,644,883    | 7,657,094    | 7,690,186    |
| <b>Selected Ratios</b>                                      |              |              |              |              |              |
| Return on average equity                                    | 12.42%       | 12.72%       | 13.19%       | 12.20%       | 13.72%       |
| Return on average assets                                    | 0.95%        | 0.97%        | 1.00%        | 1.05%        | 1.23%        |
| Average equity as a percentage of average assets            | 7.64%        | 7.59%        | 7.56%        | 8.65%        | 9.00%        |
| <b>Asset Quality Ratios</b>                                 |              |              |              |              |              |
| Allowance for loan losses to period end loans               | 1.28%        | 1.29%        | 1.30%        | 1.25%        | 1.25%        |
| Allowance for loan losses to period end nonperforming loans | 419.22%      | 492.14%      | 468.74%      | 442.64%      | 173.30%      |
| Nonperforming assets to period end loans and OREO           | 0.33%        | 0.30%        | 0.32%        | 0.43%        | 0.87%        |
| Nonperforming assets to period end total assets             | 0.27%        | 0.24%        | 0.24%        | 0.35%        | 0.88%        |
| Net charge-offs to average loans                            | 0.13%        | 0.16%        | 0.11%        | 0.15%        | 0.19%        |

\*

Excludes loans held for sale.

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The following table presents selected financial data for the five years ended December 31:

| (Dollars in thousands, except per share)            | 2007       | 2006       | 2005      | 2004      | 2003      |
|-----------------------------------------------------|------------|------------|-----------|-----------|-----------|
| <b>Summary of Operations</b>                        |            |            |           |           |           |
| Interest income                                     | \$ 149,199 | \$ 127,808 | \$ 90,568 | \$ 65,576 | \$ 62,909 |
| Interest expense                                    | 68,522     | 54,281     | 28,710    | 14,643    | 14,622    |
| Net interest income                                 | 80,677     | 73,527     | 61,858    | 50,933    | 48,287    |
| Provision for loan losses                           | 4,384      | 5,268      | 4,907     | 4,332     | 2,345     |
| Net interest income after provision for loan losses | 76,293     | 68,259     | 56,951    | 46,601    | 45,942    |
| Noninterest income                                  | 29,759     | 26,111     | 23,653    | 22,650    | 22,915    |
| Noninterest expense                                 | 73,802     | 64,281     | 56,126    | 48,798    | 46,770    |
| Income before provision for income taxes            | 32,250     | 30,089     | 24,478    | 20,453    | 22,087    |
| Provision for income taxes                          | 10,685     | 10,284     | 7,823     | 6,437     | 7,301     |
| Net income                                          | \$ 21,565  | \$ 19,805  | \$ 16,655 | \$ 14,016 | \$ 14,786 |
| <b>Per Common Share</b>                             |            |            |           |           |           |
| Net income, basic                                   | \$ 2.33    | \$ 2.17    | \$ 1.95   | \$ 1.66   | \$ 1.74   |
| Net income, diluted                                 | 2.32       | 2.15       | 1.93      | 1.64      | 1.73      |
| Book value                                          | 21.17      | 18.57      | 17.17     | 14.77     | 13.91     |
| Cash dividends                                      | 0.68       | 0.68       | 0.68      | 0.65      | 0.63      |
| Dividend payout ratio                               | 29.17%     | 30.88%     | 34.29%    | 36.66%    | 33.98%    |

In reference to the table above, net income per share data have been retroactively adjusted to give effect to a 5% common stock dividend paid to shareholders of record on December 20, 2004 and a 5% common stock dividend paid to shareholders of record on March 9, 2007.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") describes SCBT Financial Corporation and its subsidiaries' results of operations for the year ended December 31, 2007 as compared to the year ended December 31, 2006 and also analyzes our financial condition as of December 31, 2007 as compared to December 31, 2006. Like most financial institutions, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on most of which we pay interest. Consequently, one of the key measures of our success is the amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Of course, there are risks inherent in all loans, so we maintain an allowance for loan losses to absorb our estimate of probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the following section, we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this noninterest income, as well as our noninterest expense, in the following discussion.

The following section also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage



you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included in this report.

## Overview

We continued to achieve strong results and maintain sound asset quality during 2007 despite a significantly more difficult bank operating environment. We grew consolidated net income to \$21.6 million and continued to have solid asset growth throughout our bank subsidiaries. Diluted earnings per share increased 7.9% during 2007. Our balance sheet growth in 2007 reflected organic growth of our banks and the acquisition of TSB Financial Corporation ("TSB"). We experienced an 18.3% increase in total loans net of unearned income and a 13.0% increase in total deposits in 2007. We grew total assets by 19.2% during 2007. On December 1, 2007, TSB had total assets of \$222.2 million (including purchase accounting related intangibles), which increased our total assets at such date by 9.6%. The acquisition of TSB added \$154.4 million in loans, net of allowance for loan losses, \$30.5 million in investment securities and \$168.8 million in deposits, which increased our loans, investment securities and deposits at the closing date by 8.3%, 13.1% and 9.5%, respectively.

Our net interest income continued to increase throughout 2007, with growth in loan balances which offset the decline in interest rates. We ended the year with \$80.7 million in net interest income, a 9.7% increase from 2006. The decrease in our provision for loan losses to \$4.4 million from \$5.3 million in 2006 reflects strong asset quality throughout all of 2007. Our net charge offs of average loans were 0.13% compared to 0.16% during 2006. Nonperforming assets were 0.33% of total loans and other real estate owned compared to 0.30% for 2006. We experienced our strongest organic loan growth during the year in the fourth quarter of 2007. Our credit quality remained very sound throughout all of 2007. Other real estate owned, or OREO, decreased slightly to \$490,000 at year end 2007 compared to \$597,000 at the end of 2006. The amount of OREO remains at a low level.

Our noninterest income increased during 2007, resulting from higher service charges, secondary market mortgage fees, bankcard fees, and investment services. We were very successful in opening 18,983 new checking accounts in 2007. Higher salaries and employee benefits contributed to higher noninterest expense during 2007, a by-product of our expanded footprint in South Carolina and North Carolina. During 2007, we purchased TSB and incurred merger related expenses which drove up our efficiency ratio to 66.05% at December 31, 2007 compared to 63.80% at December 31, 2006. We are focused on lowering our efficiency ratio.

Our banks, South Carolina Bank and Trust, South Carolina Bank and Trust of the Piedmont, and The Scottish Bank, continue to be well capitalized.

At December 31, 2007, we had \$2.6 billion in assets and 701 full-time equivalent employees. Through our banking subsidiaries we provide our customers with checking accounts, NOW accounts, savings and time deposits of various types, brokerage services and alternative investment products such as annuities and mutual funds, trust and asset management services, loans for businesses, agriculture, real estate, personal use, home improvement and automobiles, credit cards, letters of credit, home equity lines of credit, safe deposit boxes, bank money orders, wire transfer services, correspondent banking services, and use of ATM facilities.

## Critical Accounting Policies and Estimates

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Significant accounting policies are described in Note 1 to the audited consolidated financial statements. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in our financial position and results of operations.

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The allowance for loan losses reflects the estimated losses that will result from the inability of our subsidiary banks' borrowers to make required loan payments. In determining an appropriate level for the allowance, we identify portions applicable to specific loans as well as providing amounts that are not identified with any specific loan but are derived with reference to actual loss experience, loan types, loan volumes, economic conditions, and industry standards. Changes in these factors may cause our estimate of the allowance to increase or decrease and result in adjustments to the provision for loan losses. See "Loan Loss Provision" in this MD&A and "Allowance for Loan Losses" in Note 1 to the audited consolidated financial statements for further detailed descriptions of our estimation process and methodology related to the allowance for loan losses.

Core deposit premium costs, included in other assets in the consolidated balance sheets, consist of costs that resulted from the acquisition of deposits from other commercial banks. Core deposit premium costs represent the estimated value of long-term deposit relationships acquired in these transactions. These costs are amortized over the estimated useful lives of the deposit accounts acquired on a method that we believe reasonably approximates the anticipated benefit stream from the accounts. The estimated useful lives are periodically reviewed for reasonableness. Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill is not amortized, but is evaluated annually for impairment.

### Recent Accounting Standards and Pronouncements

For information relating to recent accounting standards and pronouncements, see Note 1 to our audited Consolidated Financial Statements entitled "Summary of Significant Accounting Policies."

### Results of Operations

We grew consolidated net income by \$1.8 million for the year ended December 31, 2007 compared to the year ended December 31, 2006. Below are key highlights of our results of operations during 2007:

Consolidated net income increased 8.9% to \$21.6 million in 2007 compared with \$19.8 million in 2006 and \$16.7 million in 2005, which reflects an increase of 18.9% in 2006 compared to 2005.

Basic earnings per share increased 7.1% to \$2.33 in 2007 compared with \$2.17 in 2006 and \$1.95 in 2005.

Diluted earnings per share increased 7.9% to \$2.32 in 2007 compared with \$2.15 in 2006 and \$1.93 in 2005.

Book value per common share was \$21.17 at the end of 2007, an increase from \$18.57 at the end of 2006 and \$17.17 at the end of 2005.

Return on average assets decreased slightly to 0.95% in 2007, compared with 0.97% in 2006 and 1.00% in 2005. Our return on average assets was affected by a large increase in total assets and net interest margin compression for the year ended December 31, 2007 compared to December 31, 2006.

Return on average shareholders' equity decreased to 12.42% in 2007, compared with 12.72% in 2006 and 13.19% in 2005. The decrease reflected the impact of the acquisition of TSB, which increased average shareholders' equity to a greater degree than it increased net earnings in 2007.

Per share data above have been retroactively adjusted to give effect to a 5% stock dividend paid to shareholders of record on March 9, 2007.

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Growth in interest-earning assets and an increase in average yield drove total interest income to increase by \$21.4 million, or 16.7%, during 2007. For the year ended December 31, 2007, total interest income was \$149.2 million compared to \$127.8 million in 2006, which reflects an increase of 41.1% in 2006 from \$90.6 million in 2005. The increase was volume driven related to strong loan growth, mainly in commercial real estate loans during 2006.

Higher volume and rates on interest-bearing liabilities drove total interest expense higher by \$14.2 million, or 26.2%, during 2007. For the year ended December 31, 2007, total interest expense was \$68.5 million compared to \$54.3 million in 2006 and \$28.7 million in 2005. The increase resulted primarily from the rising interest rate environment and growth in certificate of deposit products and the increased use of federal funds purchased during most of 2007.

In February 2004, SCBT's Board of Directors authorized a program with no formal expiration date to repurchase up to 250,000 of its common shares. We did not repurchase any shares under this program during 2007, 2006 and 2005. During 2007, 2006 and 2005, we redeemed 2,474, 13,149 and 8,467, respectively, of SCBT shares from officers at an average cost of \$37.40, \$37.23 and \$30.28, respectively, under an approved program designed to facilitate stock option exercises or tax payments on vesting restricted stock under SCBT's stock incentive plans.

In the table below, we have reported our results of operations by quarter for the years ended December 31, 2007 and 2006.

**Table 1 Quarterly Results of Operations (unaudited)**

| (Dollars in thousands)            | 2007 Quarters   |                 |                 |                 | 2006 Quarters   |                 |                 |                 |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                   | Fourth          | Third           | Second          | First           | Fourth          | Third           | Second          | First           |
| Interest income                   | \$ 39,205       | \$ 37,867       | \$ 36,728       | \$ 35,399       | \$ 34,509       | \$ 33,144       | \$ 31,314       | \$ 28,841       |
| Interest expense                  | 17,613          | 17,379          | 16,964          | 16,566          | 15,678          | 14,307          | 12,829          | 11,467          |
| <b>Net interest income</b>        | <b>21,592</b>   | <b>20,488</b>   | <b>19,764</b>   | <b>18,833</b>   | <b>18,831</b>   | <b>18,837</b>   | <b>18,485</b>   | <b>17,374</b>   |
| Provision for loan losses         | 1,641           | 1,161           | 800             | 782             | 1,552           | 1,048           | 1,522           | 1,146           |
| Noninterest income                | 6,997           | 7,680           | 7,796           | 7,286           | 6,599           | 6,827           | 6,641           | 6,044           |
| Noninterest expense               | 19,324          | 18,399          | 18,356          | 17,723          | 16,585          | 16,670          | 15,657          | 15,369          |
| <b>Income before income taxes</b> | <b>7,624</b>    | <b>8,608</b>    | <b>8,404</b>    | <b>7,614</b>    | <b>7,293</b>    | <b>7,946</b>    | <b>7,947</b>    | <b>6,903</b>    |
| Income taxes                      | 2,482           | 2,966           | 2,833           | 2,404           | 2,535           | 2,686           | 2,946           | 2,117           |
| <b>Net income</b>                 | <b>\$ 5,142</b> | <b>\$ 5,642</b> | <b>\$ 5,571</b> | <b>\$ 5,210</b> | <b>\$ 4,758</b> | <b>\$ 5,260</b> | <b>\$ 5,001</b> | <b>\$ 4,786</b> |

### **Net Interest Income**

Net interest income is the largest component of our net income. Net interest income is the difference between income earned on interest-earning assets and interest paid on deposits and borrowings. Net interest income is determined by the rates earned on interest-earning assets, rates paid on interest-bearing liabilities, the relative balances of interest-earning assets and interest-bearing liabilities, the degree of mismatch, and the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities. Net interest income divided by average interest-earning assets represents our net interest margin.

The Federal Reserve lowered short-term interest rates 100 basis points in the latter part of 2007 and maintained a 4.25% targeted Fed funds rate as of December 31, 2007. We, like many other financial institutions, relied more heavily on higher cost certificates of deposit balances for funding during the first half of 2007. However, during the latter part of 2007 we reduced deposit rates in step with the reduction in the short-term interest rates and relied on other sources of funds (e.g., fed funds

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purchased) to fund loan growth. The decrease in our net interest margin reflects these factors as interest rates on our average interest-bearing liabilities adjusted upward more quickly than yields on interest-earning assets during the first half of 2007. While in 2007 we experienced slower growth in total loans, the largest component of interest-earning assets, this growth continued to sustain higher net interest income for the year ended December 31, 2007.

Net interest income highlighted for the year ended December 31, 2007:

Net interest income increased by \$7.2 million, or 9.7%, to \$80.7 million during 2007.

Higher 2007 net interest income was mostly volume related as total average interest-earning assets increased by \$215.5 million, or 11.4%, during 2007.

An increase in loans was the largest contributor to volume increase. The increase in loans accounted for 82.4% of the growth in the average balance of total interest-earning assets for the year ended December 31, 2007.

Decrease of 13 basis points in net interest spread offset interest-earning asset growth during 2007.

Non-TE (non-taxable equivalent) net interest margin decreased 5 basis points to 3.82% vs. 3.87% in 2006.

Net interest margin (taxable equivalent) decreased 6 basis points to 3.85% during 2007.

Interest-free funds favorably impacted net interest margin by 57 basis points.

Net interest income highlighted for the year ended December 31, 2006:

Net interest income increased by \$11.7 million, or 18.9%, to \$73.5 million during 2006.

Higher 2006 net interest income was volume related as total average interest-earning assets increased by \$347.9 million, or 22.4%, during 2006.

An increase in loans was the largest contributor to volume increase.

Decrease of 26 basis points in net interest spread significantly offset our strong interest-earning asset growth during 2006.

Non-TE (non-taxable equivalent) net interest margin decreased 12 basis points to 3.87%.

Net interest margin (taxable equivalent) decreased 13 basis points to 3.91%.

Interest-free funds favorably impacted net interest margin by 50 basis points.

Net interest income highlighted for the year ended December 31, 2005:

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Net interest income increased by \$10.9 million, or 21.5%, to \$61.9 million during 2005.

Higher 2005 net interest income was volume related as total average interest-earning assets increased by \$310.0 million, or 25.0%, during 2005.

Decrease of 19 basis points in net interest spread significantly offset the impact of strong interest-earning asset growth.

Non-TE net interest margin decreased 12 basis points to 3.99%.

Net interest margin (taxable equivalent) decreased 15 basis points to 4.04%.

Interest-free funds favorably impacted net interest margin by 36 basis points.

Table 2 Volume and Rate Variance Analysis

| (Dollars in thousands)                | 2007 Compared to 2006 Changes Due to Increase (Decrease) In |                 |                 | 2006 Compared to 2005 Changes Due to Increase (Decrease) In |                 |                  |
|---------------------------------------|-------------------------------------------------------------|-----------------|-----------------|-------------------------------------------------------------|-----------------|------------------|
|                                       | Volume(1)                                                   | Rate(1)         | Total           | Volume(1)                                                   | Rate(1)         | Total            |
| <b>Interest income on:</b>            |                                                             |                 |                 |                                                             |                 |                  |
| Loans(2)                              | \$ 12,447                                                   | \$ 6,330        | \$ 18,777       | \$ 20,489                                                   | \$ 14,477       | \$ 34,966        |
| <b>Investments:</b>                   |                                                             |                 |                 |                                                             |                 |                  |
| Taxable                               | 1,066                                                       | 699             | 1,765           | 1,439                                                       | 950             | 2,389            |
| Tax exempt(3)                         | 114                                                         | 23              | 137             | (140)                                                       | 88              | (52)             |
| Funds sold                            | 635                                                         | 73              | 708             | (266)                                                       | 375             | 109              |
| Interest-earning deposits with banks  | (4)                                                         | 8               | 4               | (259)                                                       | 87              | (172)            |
| <b>Total interest income</b>          | <b>14,258</b>                                               | <b>7,133</b>    | <b>21,391</b>   | <b>21,263</b>                                               | <b>15,977</b>   | <b>37,240</b>    |
| <b>Interest expense on:</b>           |                                                             |                 |                 |                                                             |                 |                  |
| Deposits                              |                                                             |                 |                 |                                                             |                 |                  |
| Interest-bearing transaction accounts | (4)                                                         | 304             | 300             | 76                                                          | 769             | 845              |
| Savings                               | 860                                                         | 1,723           | 2,583           | 406                                                         | 2,829           | 3,235            |
| Certificates of deposit               | 4,774                                                       | 4,670           | 9,444           | 5,950                                                       | 9,654           | 15,604           |
| Funds purchased                       | 2,422                                                       | 682             | 3,104           | 632                                                         | 2,413           | 3,045            |
| Notes payable                         | (1,379)                                                     | 189             | (1,190)         | 2,413                                                       | 429             | 2,842            |
| <b>Total interest expense</b>         | <b>6,673</b>                                                | <b>7,568</b>    | <b>14,241</b>   | <b>9,477</b>                                                | <b>16,094</b>   | <b>25,571</b>    |
| <b>Net interest income</b>            | <b>\$ 7,585</b>                                             | <b>\$ (435)</b> | <b>\$ 7,150</b> | <b>\$ 11,786</b>                                            | <b>\$ (117)</b> | <b>\$ 11,669</b> |

(1) The rate/volume variance for each category has been allocated on an equal basis between rate and volumes.

(2) Nonaccrual loans are included in the above analysis.

(3) Tax exempt income is not presented on a taxable-equivalent basis in the above analysis.

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Table 3 Yields on Average Interest-Earning Assets and Rates on Average Interest-Bearing Liabilities

| (Dollars in thousands)                | Years Ended December 31, |                       |                     |                 |                       |                     |                 |                       |                     |
|---------------------------------------|--------------------------|-----------------------|---------------------|-----------------|-----------------------|---------------------|-----------------|-----------------------|---------------------|
|                                       | 2007                     |                       |                     | 2006            |                       |                     | 2005            |                       |                     |
|                                       | Average Balance          | Interest Earned/ Paid | Average Yield/ Rate | Average Balance | Interest Earned/ Paid | Average Yield/ Rate | Average Balance | Interest Earned/ Paid | Average Yield/ Rate |
| <b>Assets</b>                         |                          |                       |                     |                 |                       |                     |                 |                       |                     |
| Interest-earning assets               |                          |                       |                     |                 |                       |                     |                 |                       |                     |
| Loans, net of unearned income         | \$ 1,844,944             | \$ 135,608            | 7.35%               | \$ 1,667,312    | \$ 116,831            | 7.01%               | \$ 1,333,554    | \$ 81,865             | 6.14%               |
| Investment securities                 |                          |                       |                     |                 |                       |                     |                 |                       |                     |
| Taxable                               | 204,035                  | 10,316                | 5.06%               | 181,426         | 8,551                 | 4.71%               | 147,071         | 6,162                 | 4.19%               |
| Tax exempt                            | 26,386                   | 1,302                 | 4.93%               | 24,031          | 1,165                 | 4.85%               | 27,164          | 1,217                 | 4.48%               |
| Funds sold                            | 34,631                   | 1,766                 | 5.10%               | 21,647          | 1,058                 | 4.89%               | 30,056          | 949                   | 3.16%               |
| Interest-earning deposits with banks  | 3,829                    | 207                   | 5.41%               | 3,899           | 203                   | 5.21%               | 12,568          | 375                   | 2.98%               |
| Total interest-earning assets         | 2,113,825                | 149,199               | 7.06%               | 1,898,315       | 127,808               | 6.73%               | 1,550,413       | 90,568                | 5.84%               |
| Cash and other assets                 | 181,988                  |                       |                     | 174,438         |                       |                     | 137,299         |                       |                     |
| Less, allowance for loan losses       | (23,400)                 |                       |                     | (21,135)        |                       |                     | (16,687)        |                       |                     |
| Total assets                          | \$ 2,272,413             |                       |                     | \$ 2,051,618    |                       |                     | \$ 1,671,025    |                       |                     |
| <b>Liabilities</b>                    |                          |                       |                     |                 |                       |                     |                 |                       |                     |
| Interest-bearing liabilities          |                          |                       |                     |                 |                       |                     |                 |                       |                     |
| Deposits                              |                          |                       |                     |                 |                       |                     |                 |                       |                     |
| Interest-bearing transaction accounts | \$ 277,789               | \$ 2,199              | 0.79%               | \$ 276,101      | \$ 1,899              | 0.69%               | \$ 257,538      | \$ 1,054              | 0.41%               |
| Savings                               | 395,437                  | 11,811                | 2.99%               | 361,718         | 9,228                 | 2.55%               | 338,759         | 5,993                 | 1.77%               |
| Certificates of deposit               | 806,613                  | 39,147                | 4.85%               | 694,932         | 29,703                | 4.27%               | 488,689         | 14,099                | 2.89%               |
| Funds purchased                       | 208,516                  | 9,180                 | 4.40%               | 149,081         | 6,076                 | 4.08%               | 123,352         | 3,031                 | 2.46%               |
| Notes payable                         | 109,566                  | 6,185                 | 5.64%               | 134,775         | 7,375                 | 5.47%               | 87,959          | 4,533                 | 5.15%               |
| Total interest-bearing liabilities    | 1,797,921                | 68,522                | 3.81%               | 1,616,607       | 54,281                | 3.36%               | 1,296,297       | 28,710                | 2.21%               |
| Demand deposits                       | 282,473                  |                       |                     | 266,400         |                       |                     | 240,941         |                       |                     |
| Other liabilities                     | 18,340                   |                       |                     | 12,896          |                       |                     | 7,527           |                       |                     |
| Shareholders' equity                  | 173,679                  |                       |                     | 155,715         |                       |                     | 126,260         |                       |                     |

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Years Ended December 31,

| Total liabilities and shareholders' equity   | \$ 2,272,413 | \$ 2,051,618 | \$ 1,671,025 |       |
|----------------------------------------------|--------------|--------------|--------------|-------|
| Net interest spread                          |              | 3.25%        | 3.37%        | 3.63% |
| Impact on interest free funds                |              | 0.57%        | 0.50%        | 0.36% |
| Net interest margin (non-taxable equivalent) |              | 3.82%        | 3.87%        | 3.99% |
| Net interest income                          | \$ 80,677    | \$ 73,527    | \$ 61,858    |       |

**Noninterest Income and Expense**

Noninterest income provides us with additional revenues that are significant sources of income. In 2007, 2006, and 2005, noninterest income comprised 26.9%, 26.2%, and 27.7%, respectively, of total net interest and noninterest income. The increase from 2006 resulted from an increase in our noninterest income, driven by higher service charges on deposit accounts, bankcard services income, and other income for the year ended December 31, 2007.



Table 4 Noninterest Income for the Three Years

|                                      | Years Ended December 31, |                  |                  |
|--------------------------------------|--------------------------|------------------|------------------|
|                                      | 2007                     | 2006             | 2005             |
| <b>(Dollars in thousands)</b>        |                          |                  |                  |
| Service charges on deposit accounts  | \$ 15,114                | \$ 13,377        | \$ 12,473        |
| Secondary market mortgage fees       | 5,796                    | 5,613            | 5,054            |
| Bankcard services income             | 4,136                    | 3,422            | 2,647            |
| Trust and investment services income | 2,566                    | 2,148            | 1,695            |
| Securities losses, net of gains      | (460)                    | (330)            | (202)            |
| Other                                | 2,607                    | 1,881            | 1,986            |
| <b>Total noninterest income</b>      | <b>\$ 29,759</b>         | <b>\$ 26,111</b> | <b>\$ 23,653</b> |

Noninterest income growth of 14.0% for the year ended December 31, 2007 compared to 2006 resulted from the following:

Service charges on deposit accounts increased 13.0%, driven by strong deposit growth in 2007.

Secondary market mortgage fees increased 3.3%, driven by a slight increase in service release premiums for the year ended December 31, 2007. During 2007, production in secondary market mortgages began to slow down compared to the previous year. We expect TSB to begin selling some mortgages in the secondary market which is consistent with our other bank subsidiaries.

Bankcard services income increased 20.9%, driven largely by the number of new accounts opened in 2007 and a general increase in usage by SCBT customers related to the SCBT Rewards program.

Trust and investment services income increased 19.5%, driven primarily by an increase in trust assets under management to approximately \$182.0 million, which lead to higher trust income during 2007. During the year ended December 31, 2007, investment services added an investment consultant in southern Beaufort County, SC; trust asset management expanded regional coverage and successfully added services in Murrells Inlet, SC.

We recognized \$502,000 in realized losses during the fourth quarter of 2007, which realigned approximately \$25.0 million in investment securities. We also sold an equity position during the year and recognized a \$42,000 gain.

Other service charges, commissions, and fees grew 38.6% during 2007, driven largely by a \$436,000 increase in cash surrender value of bank owned life Insurance.

Noninterest income growth of 10.4% for the year ended December 31, 2006 compared to 2005 came as a result of the following:

Service charges on deposit accounts increased 7.2%, driven by strong deposit growth in 2006.

Secondary market mortgage fees increased 11.1%, driven by an increase in service release premiums for the year ended December 31, 2006. During 2006, production in secondary market mortgages remained consistent with 2005.

Bankcard services income increased 29.3%, driven largely by the number of new accounts opened in 2006 and the introduction of the SCBT Rewards for debit cards.

Trust and investment services income increased 26.7%, driven by increased productivity of our existing investment consultants and the addition of two investment consultants in the last two quarters of 2006.



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Recognized loss on the sale of \$10.4 million of available-for-sale securities for the year ended December 31, 2006.

Other service charges, commissions, and fees decreased 5.3% during 2006, driven by a \$269,000 loss on sale of premise and equipment and a \$108,000, or 49.6%, increase in cash surrender value of bank owned life insurance.

Noninterest expense represents the largest expense category for our company. During 2007, we continued to emphasize carefully controlling our noninterest expense.

**Table 5 Noninterest Expense for the Three Years**

| (Dollars in thousands)                 | Years Ended December 31, |                  |                  |
|----------------------------------------|--------------------------|------------------|------------------|
|                                        | 2007                     | 2006             | 2005             |
| Salaries and employee benefits         | \$ 41,712                | \$ 36,555        | \$ 30,349        |
| Furniture and equipment expense        | 5,758                    | 4,989            | 4,601            |
| Net occupancy expense                  | 4,950                    | 4,227            | 3,493            |
| Information services expense           | 4,265                    | 3,685            | 3,020            |
| Advertising and marketing              | 3,143                    | 3,186            | 2,499            |
| Business development and staff related | 2,097                    | 1,717            | 1,519            |
| Professional fees                      | 2,072                    | 2,112            | 1,944            |
| Amortization of CDI                    | 509                      | 526              | 315              |
| Merger expense                         | 811                      |                  |                  |
| Other                                  | 8,485                    | 7,284            | 8,386            |
| <b>Total noninterest expense</b>       | <b>\$ 73,802</b>         | <b>\$ 64,281</b> | <b>\$ 56,126</b> |

Noninterest expense increased 14.8% for the year ended December 31, 2007 compared to 2006 primarily as a result of the following:

Salaries and employee benefits expense increased 14.1%, driven by sales volume incentives paid to employees on certain banking products and an increase in the number of employees as a result of organic growth and the acquisition of TSB. We expect that salaries and employee benefits expense will be driven largely by sales volume incentives, organic growth in 2008 and additional expense attributed to TSB personnel. This expense was the largest component of noninterest expense comprising 56.5% of the category totals for 2007. At December 31, 2007, we employed 701 full-time equivalent employees compared to 634 at the end of 2006.

Furniture and equipment expense increased by 15.4% as a result of purchases for new facilities and furniture and equipment upgrades to The Scottish Bank in order to provide consistent customer service across the SCBT family of banks.

Net occupancy expense increased 17.1%, driven by newly opened financial centers during 2007 and the increased lease expense and operating costs associated with new facilities. In 2007, we increased our total number of financial centers to 50 by acquiring four full-service branches in Charlotte, North Carolina in the purchase of TSB and opening a full-service branch in Myrtle Beach, South Carolina. Two limited-service branches in Lexington and Charleston were moved to full-service branch locations during 2007.

Although lower, advertising and public relations expense remained relatively consistent from the prior year.

Information services expense increased 15.7%, driven by adding new financial centers.

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Other noninterest expense increased 16.5% during 2007 due primarily to three factors: (1) FDIC assessment, (2) increased cost related to loan collections and other real estate owned, (3) an increase in property taxes with additional de novo locations, and (4) a write-off of interest receivable on mortgages held for sale in the first quarter of 2007.

Noninterest expense increased 14.5% for the year ended December 31, 2006 compared to 2005 primarily as a result of the following:

Salaries and employee benefits expense increased 20.5%, driven by sales volume incentives paid to employees on certain banking products and an increase in the number of employees as a result of organic growth. This expense was the largest component of noninterest expense comprising 56.9% of the category totals for 2006. At December 31, 2006, we employed 634 full-time equivalent employees compared to 590 at the end of 2005.

Furniture and equipment expense increased by 8.4% as a result of purchases for new facilities.

Net occupancy expense increased 21.0%, driven by newly opened financial centers during 2006 and the increased lease expense and operating costs associated with new facilities. In 2006, we increased our total number of financial centers to 45 by opening locations in Charleston, Fort Mill, Lexington, and Irmo, South Carolina.

Advertising and public relations expense increased 27.5% from the prior year. While the increase was lower than the increase in 2005, the increase reflected the expanded "How Can We Make Your Day?" advertising initiative in 2006 to build SCBT brand recognition in South Carolina. The increase also reflected advertising to generate customer deposits.

Information services expense increased 22.0%, driven by adding new financial centers.

Other noninterest expense decreased 13.2% resulting from our focus on cost reductions during 2006. The decreases were in lower property tax accruals, smaller community donations and much lower cost related to loan collections and OREO expense.

### **Investment Securities**

We use investment securities, the second largest category of interest-earning assets, to generate interest income through the employment of excess funds, to provide liquidity, to fund loan demand or deposit liquidation, and to pledge as collateral for public funds deposits and repurchase agreements. The composition of the portfolio remained relatively consistent from 2006. We lengthened the average life of the portfolio in anticipation of the Federal Reserve's easing cycle that started in late 2007. At December 31, 2007, investment securities were \$258.5 million, or 10.8% of earning assets, compared with \$210.4 million, or 10.5% of earning assets, at December 31, 2006. See Note 1 "Summary of Significant Accounting Policies" in the audited consolidated financial statements for our accounting policy on investment securities.

As securities are purchased, they are designated as held to maturity or available for sale based upon our intent, which incorporates liquidity needs, interest rate expectations, asset/liability management strategies, and capital requirements. We do not currently hold, nor have we ever held, any

securities that are designated as trading securities. The following table presents the book value of investment securities for the five years as of December 31, 2007:

**Table 6 Investment Securities for the Five Years**

| (Dollars in thousands)                    | December 31,      |                   |                   |                   |                   |
|-------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                           | 2007              | 2006              | 2005              | 2004              | 2003              |
| <b>Held-to-maturity (amortized cost):</b> |                   |                   |                   |                   |                   |
| State and municipal                       | \$ 21,457         | \$ 18,112         | \$ 18,194         | \$ 24,604         | \$ 29,487         |
| <b>Total held-to-maturity</b>             | <b>21,457</b>     | <b>18,112</b>     | <b>18,194</b>     | <b>24,604</b>     | <b>29,487</b>     |
| <b>Available-for-sale (fair value):</b>   |                   |                   |                   |                   |                   |
| Government-sponsored enterprises          | 71,952            | 67,448            | 37,749            | 25,185            | 25,453            |
| State and municipal                       | 10,233            |                   |                   |                   |                   |
| Mortgage-backed                           | 118,205           | 93,238            | 99,595            | 94,664            | 78,560            |
| Corporate bonds                           | 14,246            | 14,358            | 11,361            | 10,300            | 6,500             |
| Corporate stocks                          | 8,944             | 7,069             | 4,923             | 4,909             | 6,734             |
| <b>Total available-for-sale</b>           | <b>223,580</b>    | <b>182,113</b>    | <b>153,628</b>    | <b>135,058</b>    | <b>117,247</b>    |
| <b>Total other investments</b>            | <b>13,472</b>     | <b>10,166</b>     | <b>10,922</b>     | <b>5,784</b>      | <b>5,275</b>      |
| <b>Total investment securities</b>        | <b>\$ 258,509</b> | <b>\$ 210,391</b> | <b>\$ 182,744</b> | <b>\$ 165,446</b> | <b>\$ 152,009</b> |

During 2007, total investment securities increased \$48.1 million, or 22.9%, from December 31, 2006. The increase was primarily the result of the acquisition of TSB which at year end increased the following categories of securities: government-sponsored enterprises by \$20.5 million; mortgage-backed securities by \$11.0 million; and other investments by \$1.3 million. The increase in held-to-maturity ("HTM") securities was the result of purchases of state and municipal tax-exempt securities during 2007. These are generally longer-maturity bonds that we classify as HTM. We increased our purchase of these securities to take advantage of their wider-than-normal spreads to U.S. Treasury notes. At December 31, 2007, the fair value of the total investment securities portfolio (including HTM) was \$242,000, or 0.09%, lower than its book value. Comparable valuations at December 31, 2006 reflected a total investment portfolio fair value that was \$1.7 million, or 0.8%, lower than book value.

**Held-to-maturity**

HTM securities consist solely of tax-exempt state and municipal securities. The following are highlights:

Total HTM securities increased \$3.3 million from the balance at December 31, 2006.

The balance of HTM securities represented 0.8% of total assets at December 31, 2007 and 2006.

Interest earned amounted to \$719,000, an increase of \$78,000, or 12.1%, from \$641,000 in the comparable year of 2006. The average balance of the HTM portfolio increased by \$2.4 million during 2007. The overall yield on the HTM portfolio decreased by 16 basis points from 2006 and by 59 basis points from 2005 attributable to maturing or called securities that were purchased in higher interest rate environments.

The average life of the held to maturity portfolio was 6.3 years and 4.3 years at December 31, 2007 and 2006, respectively.



*Available-for-sale*

Securities available for sale consist mainly of Government-sponsored enterprises and mortgage-backed securities. At December 31, 2007, investment securities with an amortized cost of \$222.6 million and fair value of \$223.6 million were classified as available for sale. The positive adjustment of \$989,000 between the carrying value of these securities and their amortized cost has been reflected, net of tax, in the consolidated balance sheet as a component of accumulated other comprehensive loss. The following are highlights:

Total securities available for sale increased \$41.5 million, or 22.8%, from the balance at December 31, 2006, primarily as a result of securities purchased in the TSB acquisition. Without TSB, securities available for sale increased \$11.0 million, or 6.0%, from the balance at December 31, 2006.

The balance of securities available for sale represented 8.6% of total assets at December 31, 2007 and 8.4% at December 31, 2006.

Interest income earned amounted to \$10.8 million, an increase of \$1.8 million, or 20.1%, from \$9.0 million in the comparable year of 2006. Higher interest earned reflected a 17 basis point increase in the yield on available for sale securities and an increase in the average balance for the year ended December 31, 2007 of \$30.2 million.

While securities classified as available for sale may be sold from time to time to meet liquidity or other needs, it is not our normal practice to trade this segment of the investment securities portfolio. While we generally hold these assets on a long-term basis or until maturity, any short-term investments or securities available for sale could be converted at an earlier point, depending partly on changes in interest rates and alternative investment opportunities.

*Other Investments*

Other investment securities included principally Federal Reserve Bank stock and Federal Home Loan Bank of Atlanta ("FHLB") stock, each with no readily determinable market value. In the TSB acquisition, we acquired Banker's Bank stock maintained by The Scottish Bank as a North Carolina state-chartered bank. On December 3, 2007, we converted the Scottish Bank to a national association. The amortized cost and fair value of all these securities are equal at year end. The following are highlights:

Total other investment securities increased \$3.3 million, or 32.5%, from the balance at December 31, 2006. Approximately \$1.0 million of the increase was FHLB stock and Banker's Bank stock from TSB. Our banks are required to maintain a certain level of FHLB stock based on total assets, advances, and letters of credit.

The balance of other investment securities represented 0.5% of total assets at December 31, 2007 and 2006.

During 2007, we realized a net pretax loss on the disposition of investment securities of \$460,000. Most of this was attributable to our decision in the fourth quarter of 2007, to strategically reposition a portion of our investment portfolio for the current interest rate environment. This transaction resulted in a pre-tax loss of \$502,000. We realized a pretax loss of \$330,000 in 2006 and \$202,000 in 2005.

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Table 7 Maturity Distribution and Yields of Investment Securities

| (Dollars in thousands)           | Due In 1 Year or Less |       | Due After 1 Thru 5 Years |       | Due After 5 Thru 10 Years |       | Due After 10 Years |       | Total      |       | Par Value  | Fair Value |
|----------------------------------|-----------------------|-------|--------------------------|-------|---------------------------|-------|--------------------|-------|------------|-------|------------|------------|
|                                  | Amount                | Yield | Amount                   | Yield | Amount                    | Yield | Amount             | Yield | Amount     | Yield |            |            |
| <b>Held-to-maturity</b>          |                       |       |                          |       |                           |       |                    |       |            |       |            |            |
| State and municipal              | \$ 3,479              | 6.36% | \$ 7,040                 | 6.76% | \$ 5,647                  | 6.00% | \$ 5,291           | 6.02% | \$ 21,457  | 6.31% | \$ 21,470  | \$ 21,215  |
| Total held-to-maturity           | 3,479                 | 6.36% | 7,040                    | 6.76% | 5,647                     | 6.00% | 5,291              | 6.02% | 21,457     | 6.31% | 21,470     | 21,215     |
| <b>Available-for-sale</b>        |                       |       |                          |       |                           |       |                    |       |            |       |            |            |
| Government-sponsored enterprises | 19,013                | 4.60% | 29,422                   | 5.15% | 23,517                    | 5.52% |                    | 0.00% | 71,952     | 5.12% | 71,606     | 71,953     |
| State and municipal              | 266                   | 3.20% | 1,246                    | 4.08% | 2,604                     | 4.14% | 6,117              | 4.23% | 10,233     | 4.16% | 10,135     | 10,233     |
| Mortgage-backed                  | 6,443                 | 4.49% | 75,380                   | 5.05% | 31,575                    | 5.36% | 4,807              | 5.33% | 118,205    | 5.11% | 118,380    | 118,205    |
| Corporate bonds                  | 3,000                 | 7.29% | 998                      | 7.24% |                           | 0.00% | 10,248             | 6.23% | 14,246     | 6.52% | 14,298     | 14,246     |
| Corporate stocks                 | 3,984                 | 5.70% | 1,796                    | 6.42% | 773                       | 6.55% | 2,391              | 4.24% | 8,944      | 5.53% | 9,105      | 8,943      |
| Total available-for-sale         | 32,706                | 4.92% | 108,842                  | 5.06% | 58,469                    | 5.20% | 23,563             | 4.22% | 223,580    | 4.99% | 223,524    | 223,580    |
| Total other investments (1)      |                       | 0.00% |                          | 0.00% |                           | 0.00% | 13,472             | 5.31% | 13,472     | 5.31% | 13,472     | 13,472     |
| Total investment securities      | \$ 36,185             | 5.06% | \$ 115,882               | 5.17% | \$ 64,116                 | 5.27% | \$ 42,326          | 4.79% | \$ 258,509 | 5.12% | \$ 258,466 | \$ 258,267 |
| Percent of total                 | 14%                   |       | 45%                      |       | 25%                       |       | 16%                |       |            |       |            |            |
| Cumulative percent of total      | 14%                   |       | 59%                      |       | 84%                       |       | 100%               |       |            |       |            |            |

(1) Federal Reserve Bank and other corporate stocks have no set maturity date and are classified in "Due after 10 Years."

**Loan Portfolio**

Our loan portfolio remains our largest category of interest-earning assets. The increase in total loans, net of unearned income, was driven by \$156.2 million in loans acquired in the TSB merger. For the year ended December 31, 2007, our core loans (i.e., those excluding the TSB acquisition) represented a \$166.0 million increase, or 9.4%. A 17.6% increase in loans secured by commercial real estate including owner occupied real estate drove overall core loan growth for the year ended December 31, 2007. At December 31, 2007, total loans had grown to \$2.1 billion, an increase of \$322.4 million, or 18.3%, compared to \$1.8 billion at the end of 2006. Average loans outstanding during 2007 were \$1.8 billion, an increase of \$176.3 million, or 10.7%, over the 2006 average of \$1.7 billion.



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The following table presents a summary of the loan portfolio by category:

**Table 8 Distribution of Net Loans by Type**

| (Dollars in thousands)  | December 31,        |                     |                     |                     |                   |
|-------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
|                         | 2007                | 2006                | 2005                | 2004                | 2003              |
| <b>Real estate:</b>     |                     |                     |                     |                     |                   |
| Commercial              | \$ 1,075,423        | \$ 835,892          | \$ 641,275          | \$ 430,244          | \$ 362,897        |
| Consumer                | 459,022             | 434,957             | 421,860             | 334,578             | 244,425           |
| Commercial              | 245,069             | 190,635             | 178,039             | 138,228             | 108,665           |
| Firstline               | 164,104             | 144,910             | 145,404             | 128,429             | 101,101           |
| Consumer                | 117,650             | 130,596             | 127,817             | 104,553             | 98,180            |
| Other loans             | 22,024              | 23,870              | 21,605              | 17,375              | 24,270            |
| <b>Total loans</b>      | <b>\$ 2,083,292</b> | <b>\$ 1,760,860</b> | <b>\$ 1,536,000</b> | <b>\$ 1,153,407</b> | <b>\$ 939,538</b> |
| <b>Percent of Total</b> |                     |                     |                     |                     |                   |
| <b>Real estate:</b>     |                     |                     |                     |                     |                   |
| Commercial              | 51.6%               | 47.5%               | 41.7%               | 37.3%               | 38.6%             |
| Consumer                | 22.0%               | 24.7%               | 27.5%               | 29.0%               | 26.0%             |
| Commercial              | 11.8%               | 10.8%               | 11.6%               | 12.0%               | 11.6%             |
| Firstline               | 7.9%                | 8.2%                | 9.5%                | 11.1%               | 10.8%             |
| Consumer                | 5.6%                | 7.4%                | 8.3%                | 9.1%                | 10.4%             |
| Other loans             | 1.1%                | 1.4%                | 1.4%                | 1.5%                | 2.6%              |
| <b>Total loans</b>      | <b>100.0%</b>       | <b>100.0%</b>       | <b>100.0%</b>       | <b>100.0%</b>       | <b>100.0%</b>     |

*Note:* In the table above, the loan category commercial and consumer real estate includes owner occupied real estate. Firstline loans are home equity lines of credit.

Real estate mortgage loans continue to comprise the largest segment of our loan portfolio. All commercial and residential loans secured by real estate are included in this category. As of December 31, 2007 compared to December 31, 2006:

Loans secured by real estate mortgages were \$1.7 billion, and comprised 81.5% of the total loan portfolio. This was an increase of \$282.8 million, or 20.0%, over year-end 2006. Core loans in this category, not including the TSB merger, grew by \$152.5 million, or 10.8%

Loans secured by commercial real estate grew by \$239.5 million, or 28.7%. Core loans in this category grew by \$146.8 million, or 17.6%.

Loans secured by consumer real estate grew by \$43.3 million, or 7.5%. Core loans in this category grew by \$5.7 million, or 1.0%.

Commercial non real estate loans grew \$54.4 million, or 28.6%, from the comparable year of 2006. The balance represented 11.8% of total loans. Core loans in this category grew \$30.0 million, or 15.7%.

Loan interest income, including fees, was \$135.6 million in 2007, an increase of \$18.8 million, or 16.1% percent, over 2006 income of \$116.8 million. The increase was the result of an increase in the total average outstanding loan balance in 2007 compared with 2006, as well as an average loan portfolio yield in 2007 of 7.35% which was 34 basis points higher than the 7.01% loan yield in 2006. Interest and fee income for 2006 was 42.7% above the 2005 income of \$81.9 million. The average loan yield in 2006 was 87 basis points higher than the 2005 yield of

6.14%.

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The table below shows the maturity and interest rate sensitivity of the loan portfolio at December 31, 2007.

**Table 9 Maturity Distribution of Loans**

| December 31, 2007<br>(Dollars in thousands) | Total               | 1 Year or Less    | Maturity<br>1 to 5 Years | Over<br>5 Years   |
|---------------------------------------------|---------------------|-------------------|--------------------------|-------------------|
| <b>Real estate:</b>                         |                     |                   |                          |                   |
| Commercial                                  | \$ 1,075,423        | \$ 366,646        | \$ 583,410               | \$ 125,367        |
| Consumer                                    | 459,022             | 125,766           | 171,424                  | 161,832           |
| Commercial                                  | 245,069             | 109,254           | 116,461                  | 19,354            |
| Firstline                                   | 164,104             | 24,684            | 19,153                   | 120,267           |
| Consumer                                    | 117,650             | 15,983            | 90,812                   | 10,855            |
| Other loans                                 | 22,024              | 16,940            | 4,005                    | 1,079             |
| <b>Total loans</b>                          | <b>\$ 2,083,292</b> | <b>\$ 659,273</b> | <b>\$ 985,265</b>        | <b>\$ 438,754</b> |

### Nonaccrual Loans

The placement of loans on a nonaccrual status is dependent upon the type of loan, the past due status and the collection activities in progress. Non-real estate secured loans and commercial loans are typically moved to non-accrual status at 90 days past due. Loans well secured and in the process of collection are allowed to remain on an accrual basis until they become 120 days past due. Unsecured commercial loans are generally charged off at 120 days past due. Generally, commercial and real estate loans that are fully or partially secured are written down to the collateral value and placed on nonaccrual status becoming 90 days past due. Consumer loans can be placed on nonaccrual status, but normally they are not moved into nonaccrual status before charge off occurs. Closed end consumer loans are charged off or written down to the collateral value on or before becoming 120 days past due. Open end consumer loans secured by real estate are charged off or written down to the collateral value on or before becoming 180 days past due.

The level of risk elements in the loan portfolio for the past five years is shown below:

**Table 10 Nonaccrual and Past Due Loans**

| (Dollars in thousands)                                              | December 31,    |                 |                 |                 |                 |
|---------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                                                     | 2007            | 2006            | 2005            | 2004            | 2003            |
| Loans past due 90 days or more                                      | \$ 985          | \$ 1,039        | \$ 1,512        | \$ 840          | \$ 2,082        |
| Loans on a nonaccruing basis                                        | 5,353           | 3,567           | 2,760           | 2,429           | 4,669           |
|                                                                     | <b>\$ 6,338</b> | <b>\$ 4,606</b> | <b>\$ 4,272</b> | <b>\$ 3,269</b> | <b>\$ 6,751</b> |
| Total nonperforming assets as a percentage of total loans and OREO* | <b>0.33%</b>    | 0.30%           | 0.28%           | 0.25%           | 0.30%           |

\*

Loan data excludes mortgage loans held for sale.

### Loan Loss Provision

On December 13, 2006, the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and other regulatory agencies collectively revised the banking agencies' 1993 policy statement on the allowance for loan and lease



losses to ensure consistency with generally accepted accounting principles in the United States and more recent supervisory guidance. Our loan loss policy adheres to the interagency guidance.

The allowance for loan losses is based upon estimates made by management. We maintain an allowance for loan losses at a level that we believe is appropriate to cover estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of our loan portfolio. Arriving at the allowance involves a high degree of management judgment and results in a range of estimated losses. We regularly evaluate the adequacy of the allowance through our internal risk rating system, outside credit review, and regulatory agency examinations to assess the quality of the loan portfolio and identify problem loans. The evaluation process also includes our analysis of current and future economic conditions, composition of the loan portfolio, past due and nonaccrual loans, concentrations of credit, lending policies and procedures, and historical loan loss experience. The provision for loan losses is charged to expense in an amount necessary to maintain the allowance at an appropriate level.

The Office of the Comptroller of the Currency recommends that banks take a broad view of certain factors in evaluating their allowance for loan losses. These factors include loan loss experience, specific allocations and other subjective factors. In our ongoing consideration of such factors, we consider our allowance for loan losses to be adequate. The following table presents changes in the allowance for loan losses for the five years at December 31, 2007:

*Table 11 Summary of Loan Loss Experience*

| (Dollars in thousands)                                             | 2007         | 2006         | 2005         | 2004         | 2003       |
|--------------------------------------------------------------------|--------------|--------------|--------------|--------------|------------|
| Allowance for loan losses at January 1                             | \$ 22,668    | \$ 20,025    | \$ 14,470    | \$ 11,700    | \$ 11,065  |
| Total charge-offs                                                  | (3,325)      | (3,438)      | (1,850)      | (2,008)      | (2,410)    |
| Total recoveries                                                   | 1,008        | 813          | 383          | 446          | 700        |
| Net charge-offs*                                                   | (2,317)      | (2,625)      | (1,467)      | (1,562)      | (1,710)    |
| Provision for loan losses                                          | 4,384        | 5,268        | 4,907        | 4,332        | 2,345      |
| Allowance from acquisition                                         | 1,835        |              | 2,115        |              |            |
| Allowance for loan losses at December 31                           | \$ 26,570    | \$ 22,668    | \$ 20,025    | \$ 14,470    | \$ 11,700  |
| Average loans, net of unearned income**                            | \$ 1,823,196 | \$ 1,646,906 | \$ 1,313,796 | \$ 1,043,471 | \$ 899,421 |
| Ratio of net charge-offs to average loans, net of unearned income* | 0.13%        | 0.16%        | 0.16%        | 0.21%        | 0.25%      |
| Allowance for loan losses as a percentage of total loans           | 1.28%        | 1.29%        | 1.30%        | 1.25%        | 1.25%      |

\* Net charge-offs at December 31, 2007 and 2006 include automated overdraft protection ("AOP") principal net charge-offs of \$760,000 and \$729,000, respectively. At December 31, 2005, 2004, and 2003, AOP principal net charge-offs were estimated at \$692,000, \$581,000, and \$556,000, respectively. For comparability, the ratio of net charge-offs to average loans, net of unearned income, for 2005, 2004, and 2003 is adjusted to include the estimated AOP principal net charge-offs.

\*\* Average loans, net of unearned income does not include loans held for sale.

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The lower provision in 2007 reflects lower net charge-offs than in 2006 as well as slower loan growth during the year. The following provides highlights for the years ended December 31, 2007 and 2006:

Total charge-offs decreased \$113,000, or 3.3% for the year ended December 31, 2007 compared to a \$720,000, or 26.5%, increase for the comparable year in 2006 after adjusting 2005 charge-offs for principal AOP charge-offs so that the percentage increase of 26.5% is comparable to the change between 2007 and 2006 of 3.3%.

Management expects net charge-offs to increase during 2008 given the current economic environment and pressures within the real estate market. Over the past three years, the dollar amount of charge-offs has increased, while the loan portfolio has increased substantially as well, therefore, the ratio of charge-offs to average loans has remained steady or decreased.

Other real estate owned includes certain real estate acquired as a result of foreclosure and deeds in lieu of foreclosure, as well as amounts reclassified as in-substance foreclosures. At December 31, 2007 and December 31, 2006, other real estate owned was \$490,000 and \$597,000, respectively.

### Liquidity

Liquidity refers to our ability to generate sufficient cash to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit and payment of operating expenses. We have employed our funds in a manner to provide liquidity from both assets and liabilities sufficient to meet our cash needs.

Asset liquidity is maintained by the maturity structure of loans, investment securities and other short-term investments. Management has policies and procedures governing the length of time to maturity on loans and investments. As reported in table 7, fourteen percent of the investment portfolio contractually matures in one year or less. This segment of the portfolio consists largely of Government-sponsored enterprises securities, municipal obligations, and agency preferred stock. Normally, changes in the earning asset mix are of a longer-term nature and are not utilized for day-to-day corporate liquidity needs.

Our liabilities provide liquidity on a day-to-day basis. Daily liquidity needs are met from deposit levels or from our use of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings. We engage in routine activities to retain deposits intended to enhance our liquidity position. These routine activities include various measures, such as the following:

Emphasizing relationship banking to new and existing customers, where borrowers are encouraged and normally expected to maintain deposit accounts with our banks,

Pricing deposits, including certificates of deposit, at rate levels that will attract and/or retain balances of deposits that will enhance our banks' asset/liability management and net interest margin requirements, and

Continually working to identify and introduce new products that will attract customers or enhance our banks' appeal as a primary provider of financial services.

For the year ended December 31, 2007, we shortened the maturities of our funding liabilities, particularly late in the year, as we anticipated the possibility of declining interest rates. Our approach may provide an opportunity to lower our cost of funds but could also increase our cost of funds if interest rates rise.

Our ongoing philosophy is to remain in a liquid position as reflected by such indicators as the composition of our earning assets, typically including some level of federal funds sold, reverse repurchase agreements, and/or other short-term investments, asset quality, well-capitalized position, and

profitable operating results. Cyclical and other economic trends and conditions can disrupt our banks' desired liquidity position at any time. We expect that these conditions will generally be of a short-term nature. Under such circumstances, the banks' federal funds sold positions serve as the primary source of immediate liquidity. If additional liquidity were needed, the banks would turn to short-term borrowings as an alternative immediate funding source and would consider other appropriate actions such as promotions to increase core deposits or the sale of a portion of our investment portfolio. In addition, we could seek alternative immediate funding sources from lines of credit extended to us from our correspondent banks and/or the Federal Home Loan Bank. We believe that our liquidity position is adequate.

Our contingency funding plan provides several potential stages based on liquidity levels. Our Board of Directors reviews liquidity benchmarks quarterly. Also, we review on at least an annual basis our liquidity position and our contingency funding plans with our principal banking regulator. Our subsidiary banks maintain various wholesale sources of funding. If our deposit retention plan were to be unsuccessful, our banks would utilize these sources of funding. Under such circumstances, depending on the external source of funds, our interest cost would vary based on the range of interest rates charged to our banks. This could increase our banks' cost of funds, impacting net interest margins and net interest spreads.

### **Derivatives and Securities Held for Trading**

The Securities and Exchange Commission has adopted rules that require comprehensive disclosure of accounting policies for derivatives as well as enhanced quantitative and qualitative disclosures of market risk for derivatives and other financial instruments. The market risk disclosures are classified into two categories: financial instruments entered into for trading purposes and all other instruments (non-trading purposes). We do not currently employ financial derivatives, nor do we maintain a trading portfolio.

### **Asset-Liability Management and Market Risk Sensitivity**

Our earnings and the economic value of our shareholders' equity may vary in relation to changes in interest rates and in relation to the accompanying fluctuations in market prices of certain of our financial instruments. We use a number of methods to measure interest rate risk, including simulating the effect on earnings of fluctuations in interest rates, monitoring the present value of asset and liability portfolios under various interest rate scenarios, and monitoring the difference, or gap, between rate sensitive assets and liabilities, as discussed below. The earnings simulation model and gap analysis take into account our contractual agreements with regard to investments, loans, deposits, and borrowings. Although our simulation model is subject to the accuracy of the assumptions that underlie the process, we believe that such modeling provides a better illustration of the interest sensitivity of earnings than does static interest rate sensitivity gap analysis. The simulation model assists in measuring and achieving growth in net interest income while identifying and managing interest rate risk. The simulations incorporate interest rate changes as well as projected changes in the mix and volume of balance sheet assets and liabilities. Accordingly, the simulations are considered to provide a good indicator of the degree of earnings risk we have, or may incur in future periods, arising from interest rate changes or other market risk factors.

Our primary policy is to monitor exposure to interest rate increases and decreases of as much as 200 basis points ratably over a 12-month period. Our policy guideline for the maximum negative impact on net interest income from a steady ("ramping") change in interest rates of 200 basis points over 12 months is 8 percent. We traditionally have maintained a risk position well within the policy guideline level. As of December 31, 2007, the earnings simulations indicated that the impact of a 200 basis point decrease in rates over 12 months would result in an approximate 0.5 percent increase in net interest income while a 200 basis point increase in rates over the same period would result in an approximate

0.6 percent decline in net interest income both as compared with a base case unchanged interest rate environment. These results indicate that our rate sensitivity is basically neutral to very slightly liability sensitive to the indicated change in interest rates over a one-year horizon. Actual results may differ from simulated results due to the timing, magnitude and frequency of interest rate changes and changes in market conditions or management strategies, among other factors. The shape of the fixed-income yield curve can also influence interest rate risk sensitivity, with, for instance, a "flat" to "slightly inverted" yield curve having a dampening effect on our slight liability sensitivity. Also, other factors may influence actual results, such as the nature and pace of the Federal Reserve's monetary policy activities (e.g., aggressive rate cuts could narrow margins for a period of time).

As mentioned above, another (though less useful) indicator of interest rate risk exposure is the interest rate sensitivity gap and cumulative gap. Interest rate sensitivity gap analysis is based on the concept of comparing financial assets that reprice with financial liabilities that reprice within a stated time period. The time period in which a financial instrument is considered to be rate sensitive is determined by that instrument's first opportunity to reprice to a different interest rate. For variable rate products the period in which repricing occurs is contractually determined. For fixed rate products the repricing opportunity is deemed to occur at the instrument's maturity or call date, if applicable. For non-interest-bearing funding products, the "maturity" is based solely on an anticipated decay, or runoff, rate. When more assets than liabilities reprice within a given time period, a positive interest rate gap (or "asset sensitive" position) exists. Asset sensitive institutions may benefit in generally rising rate environments as assets reprice more quickly than liabilities. Conversely, when more liabilities than assets reprice within a given time period, a negative interest rate gap (or "liability sensitive" position) exists. Liability sensitive institutions may benefit in generally falling rate environments as funding sources reprice more quickly than earning assets. However, another shortfall of static gap analysis based solely on the timing of repricing opportunities is its lack of attention to the degree of magnitude of rate repricings of the various financial instruments.

As shown in the gap analysis below at December 31, 2007, we had a greater dollar value of financial liabilities that were subject to repricing within a 12-month time horizon than financial assets that were subject to repricing. The next three twelve-month periods display a greater amount of financial assets subject to repricing. In the fifth year, more financial liabilities reprice, followed generally thereafter by more financial assets subject to repricing as compared to financial liabilities. We have a cumulatively small negative interest rate gap for the 5-year aggregate period through 2011. The degree of magnitude of rate repricings of the financial assets and liabilities is, as mentioned above, not accounted for by a static gap analysis such as that presented in the table below.

We do not currently use interest rate swaps or other derivatives to modify the interest rate risk of our financial instruments.

The following table provides information as of December 31, 2007 about our financial instruments that are sensitive to changes in interest rates. For fixed rate loans, securities, time deposits, federal funds and repurchase agreements, and notes payable, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates, call dates, or average-life terminal dates as most applicable. Variable rate instruments are presented according to their first repricing opportunities. Non-interest bearing deposits and interest-bearing savings and checking deposits have no contractual maturity dates. For purposes of the table below, projected maturity dates for such deposits were determined based on decay rate assumptions used internally by us to evaluate such deposits. For further information on the fair value of financial instruments, see Note 24 to the consolidated financial statements.



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Table 12 Financial Instruments that are Sensitive to Changes in Interest Rates

| (Dollars in thousands)                                                        | 2008                | 2009              | 2010              | 2011              | 2012              | There-after       | Total               | Fair Value<br>12/31/2007 |
|-------------------------------------------------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|--------------------------|
| <b>Financial Assets:</b>                                                      |                     |                   |                   |                   |                   |                   |                     |                          |
| Loans, net of unearned income:                                                |                     |                   |                   |                   |                   |                   |                     |                          |
| Fixed Rate:                                                                   |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | \$ 463,987          | \$ 264,801        | \$ 219,098        | \$ 160,426        | \$ 70,132         | \$ 54,205         | \$ 1,232,649        | \$ 1,229,968             |
| Average interest rate                                                         | 6.95%               | 6.96%             | 7.05%             | 7.43%             | 0.00%             | 7.56%             | 6.67%               |                          |
| Variable Rate:                                                                |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 742,067             | 37,958            | 40,165            | 9,537             | 9,282             | 2,171             | 841,179             | 839,006                  |
| Average interest rate                                                         | 7.38%               | 6.25%             | 6.38%             | 6.62%             | 0.00%             | 6.84%             | 7.19%               |                          |
| Securites held to maturity:                                                   |                     |                   |                   |                   |                   |                   |                     |                          |
| Fixed Rate:                                                                   |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 5,960               | 1,404             | 1,448             | 1,525             | 2,640             | 8,480             | 21,457              | 21,215                   |
| Average interest rate                                                         | 6.84%               | 4.28%             | 4.88%             | 4.09%             | 4.09%             | 3.99%             | 4.88%               |                          |
| Variable Rate:                                                                |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    |                     |                   |                   |                   |                   |                   |                     |                          |
| Average interest rate                                                         | 0.00%               | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 0.00%               |                          |
| Securites available for sale:                                                 |                     |                   |                   |                   |                   |                   |                     |                          |
| Fixed Rate:                                                                   |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 77,276              | 46,807            | 18,828            | 14,938            | 11,746            | 39,538            | 209,132             | 209,132                  |
| Average interest rate                                                         | 5.28%               | 5.16%             | 5.06%             | 4.95%             | 0.00%             | 0.74%             | 4.05%               |                          |
| Variable Rate:                                                                |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 14,448              |                   |                   |                   |                   |                   | 14,448              | 14,448                   |
| Average interest rate                                                         | 6.52%               | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 6.52%               |                          |
| Other investments:                                                            |                     |                   |                   |                   |                   |                   |                     |                          |
| Fixed Rate:                                                                   |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    |                     |                   |                   |                   |                   | 4,877             | 4,877               | 4,877                    |
| Average interest rate                                                         | 0.00%               | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 4.09%             | 4.09%               |                          |
| Variable Rate:                                                                |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 8,595               |                   |                   |                   |                   |                   | 8,595               | 8,595                    |
| Average interest rate                                                         | 6.00%               | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 6.00%               |                          |
| Federal funds sold                                                            | 32,021              | 250               |                   |                   | 467               |                   | 32,738              | 32,738                   |
| Average interest rate                                                         | 4.12%               | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 4.03%               |                          |
| <b>Total Financial Assets</b>                                                 | <b>\$ 1,344,354</b> | <b>\$ 351,220</b> | <b>\$ 279,539</b> | <b>\$ 186,426</b> | <b>\$ 94,267</b>  | <b>\$ 109,271</b> | <b>\$ 2,365,075</b> | <b>\$ 2,359,984</b>      |
| <b>Financial Liabilities:</b>                                                 |                     |                   |                   |                   |                   |                   |                     |                          |
| Non-interest bearing deposits                                                 |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | \$ 63,395           | \$ 63,099         | \$ 63,099         | \$ 63,099         | \$ 63,099         | \$                | \$ 315,791          | \$ 283,844               |
| Average interest rate                                                         | N/A                 | N/A               | N/A               | N/A               | N/A               | N/A               | N/A                 |                          |
| Interest-bearing savings and checking                                         |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 245,955             | 235,345           | 95,061            | 75,029            | 74,278            |                   | 725,668             | 695,333                  |
| Average interest rate                                                         | 2.37%               | 2.44%             | 2.29%             | 0.74%             | 0.00%             | 0.00%             | 1.97%               |                          |
| Time deposits                                                                 |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 847,164             | 32,048            | 4,555             | 1,217             | 907               | 539               | 886,430             | 890,292                  |
| Average interest rate                                                         | 4.78%               | 4.60%             | 4.42%             | 4.16%             | 0.00%             | 3.61%             | 4.76%               |                          |
| Federal funds purchased and securities sold under agreements to repurchase    |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 296,186             |                   |                   |                   |                   |                   | 296,186             | 296,186                  |
| Average Interest Rate                                                         | 4.06%               | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 0.00%             | 4.06%               |                          |
| Notes payable                                                                 |                     |                   |                   |                   |                   |                   |                     |                          |
| Book Value                                                                    | 50,255              | 13,802            | 843               | 33,387            | 930               | 44,643            | 143,860             | 143,529                  |
| Average interest rate                                                         | 4.11%               | 4.66%             | 4.97%             | 4.95%             | 0.00%             | 5.84%             | 4.87%               |                          |
| <b>Total Financial Liabilities</b>                                            | <b>\$ 1,502,955</b> | <b>\$ 344,294</b> | <b>\$ 163,558</b> | <b>\$ 172,732</b> | <b>\$ 139,214</b> | <b>\$ 45,182</b>  | <b>\$ 2,367,935</b> | <b>\$ 2,309,184</b>      |
| <b>Interest rate sensitivity gap</b>                                          |                     |                   |                   |                   |                   |                   |                     |                          |
| Cumulative interest rate sensitivity gap                                      | \$ (158,601)        | \$ 6,926          | \$ 115,981        | \$ 13,693         | \$ (44,948)       | \$ 64,089         | \$ (2,860)          |                          |
| Cumulative interest rate sensitivity gap as percent of total financial assets | -6.71%              | -6.41%            | -1.51%            | -0.93%            | -2.83%            | -0.12%            |                     |                          |
| <b>Deposits</b>                                                               |                     |                   |                   |                   |                   |                   |                     |                          |

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We rely on deposits by our customers as a primary source of funds for the continued growth of our loan and investment securities portfolios. Customer deposits are categorized as either noninterest-

bearing deposits or interest-bearing deposits. Noninterest-bearing deposits (or demand deposits) are transaction accounts that provide SCBT with "interest-free" sources of funds. Interest-bearing deposits include savings deposit, interest-bearing transaction accounts, certificates of deposits, and other time deposits. Interest-bearing transaction accounts include NOW, HSA, IOLTA, and Market Rate checking accounts. The following table presents total deposits for the five years at December 31, 2007:

**Table 13 Total Deposits**

| (Dollars in thousands)             | December 31, |              |              |              |            |
|------------------------------------|--------------|--------------|--------------|--------------|------------|
|                                    | 2007         | 2006         | 2005         | 2004         | 2003       |
| Demand deposits                    | \$ 315,791   | \$ 256,717   | \$ 250,899   | \$ 226,423   | \$ 170,313 |
| Savings deposits                   | 137,129      | 76,734       | 76,609       | 73,702       | 67,480     |
| Interest-bearing deposits          | 588,289      | 579,398      | 545,811      | 457,801      | 339,336    |
| Total savings and interest-bearing | 725,418      | 656,132      | 622,420      | 531,503      | 406,816    |
| Certificates of deposit            | 886,330      | 793,540      | 599,673      | 415,513      | 370,028    |
| Other time deposits                | 350          | 326          | 297          | 270          | 242        |
| Total time deposits                | 886,680      | 793,866      | 599,970      | 415,783      | 370,270    |
| Total deposits                     | \$ 1,927,889 | \$ 1,706,715 | \$ 1,473,289 | \$ 1,173,709 | \$ 947,399 |

The acquisition of TSB primarily drove growth in total deposits at December 31, 2007 compared to 2006. The following are key highlights regarding overall growth in total deposits:

Total deposits increased \$221.2 million, or 13.0%, for the year ended December 31, 2007, driven largely by a \$168.8 million increase in deposits acquired in the TSB transaction. Excluding the acquisition, total core deposits grew \$52.4 million, or 3.1%. Toward the end of 2007, we decided to reduce deposit rates in step with the reduction in short-term market rates administered by the Federal Reserve. For the year ended December 31, 2006, total deposits increased \$233.4 million, or 15.8%.

Noninterest-bearing deposits grew by \$59.1 million for the year ended December 31, 2007. The growth reflected \$23.8 million attributed to the acquisition and core growth of \$35.3 million, or 13.8%.

Total savings and interest bearing account balances increased \$69.3 million for the year ended December 31, 2007, primarily driven by a \$49.6 million, or 7.6%, increase in these deposits acquired in the TSB transaction. Excluding TSB, savings deposits increased \$55.7 million, or 72.6%, money market (Market Rate Checking) deposits decreased \$58.2 million, or 18.7%, and other interest-bearing deposits (NOW, IOLTA, and other) increased \$22.2 million, or 8.2%.

Interest-bearing deposits increased by \$8.9 million, or 1.5%, for the year ended December 31, 2007. Excluding TSB, interest-bearing deposits decreased by \$36.1 million, or 6.2%.

At December 31, 2007, the ratio of savings, interest-bearing, and time deposits to total deposits was 84.0%, down slightly from 85.0% at the end of 2006.

Contributing to these increases was a corporate-wide free checking deposit campaign to increase new account activity that resulted in 15,512 new personal accounts and 3,471 new business checking accounts.

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The following are key highlights regarding overall growth in average total deposits:

Total deposits averaged \$1.8 billion in 2007, an increase of 10.2% from 2006. This increase was attributed to one month of deposits acquired in the TSB transaction, growth in core demand

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deposits and growth in core interest-bearing deposits during 2007. Total deposits averaged \$1.6 billion in 2006, an increase of 20.6% from 2005.

Average interest-bearing transaction account deposits grew by \$1.7 million, or 0.6%, in 2007 compared to 2006.

Average noninterest-bearing demand deposits increased by \$16.1 million, or 6.0%, in 2007 compared to 2006.

The following table provides a maturity distribution of certificates of deposit of \$100,000 or more for the next twelve months as of December 31:

**Table 14 Maturity Distribution of Certificates of Deposits of \$100 Thousand or More**

| (Dollars in thousands)          | December 31,      |                   | %<br>Change  |
|---------------------------------|-------------------|-------------------|--------------|
|                                 | 2007              | 2006              |              |
| Within three months             | \$ 120,165        | \$ 134,609        | 10.7%        |
| After three through six months  | 181,492           | 100,363           | 80.8%        |
| After six through twelve months | 111,873           | 126,547           | 11.6%        |
| After twelve months             | 13,649            | 9,998             | 36.5%        |
|                                 | <b>\$ 427,179</b> | <b>\$ 371,517</b> | <b>15.0%</b> |

### Short-Term Borrowed Funds

Our short-term borrowed funds consist of federal funds purchased and securities sold under repurchase agreements. Note 9, "Federal Funds Purchased and Securities Sold Under Agreements to Repurchase," in our audited financial statements provides a profile of these funds for the last three years at each year-end, the average amounts outstanding during each period, the maximum amounts outstanding at any month-end, and the weighted average interest rates on year-end and average balances in each category. Federal funds purchased and securities sold under agreements to repurchase most typically have maturities within one to three days from the transaction date. Certain of these borrowings have no defined maturity date.

### Capital and Dividends

Traditionally, our strong shareholders' equity base has provided support for our banking operations and growth opportunities, while ensuring sufficient resources to absorb the risks inherent in our business. As of December 31, 2007, we had \$215.1 million in total shareholders' equity, or 8.3% of total assets. This compares to \$161.9 million in total shareholders' equity, or 7.4% of total assets, at the end of 2006.

The Federal Reserve Board on March 1, 2005 announced changes to its capital adequacy rules, including the capital treatment of trust preferred securities. The Federal Reserve's new rules, which took effect in early April 2005, permit bank holding companies to treat outstanding trust preferred securities as Tier 1 Capital for the first 25 years of the 30 year term of the related junior subordinated debt securities. We issued \$40,000,000 of these types of junior non-consolidated securities during 2005, positively impacting Tier I Capital. We did not issue trust preferred securities during the years ended December 31, 2007 and 2006. (See Note 1 on page F-10 of the Notes to Consolidated Financial Statements for a more detailed explanation of our trust preferred securities.)

We are subject to certain risk-based capital guidelines that measure the relationship of capital to both balance sheet and off-balance sheet risks. Risk values are adjusted to reflect credit risk. Pursuant to guidelines of the Board of Governors of the Federal Reserve System, which are substantially similar

to those promulgated by the Office of the Comptroller of the Currency, Tier 1 capital must be at least fifty percent of total capital and total capital must be eight percent of risk-weighted assets.

As an additional measure of capital soundness, the regulatory agencies have prescribed a leverage ratio of total capital to total assets. The minimum leverage ratio assigned to banks is between three and five percent and is dependent on the institution's composite rating as determined by its regulators.

**Table 15 Capital Adequacy Ratios**

| (In percent)              | December 31, |       |       |
|---------------------------|--------------|-------|-------|
|                           | 2007         | 2006  | 2005  |
| Tier 1 risk-based capital | 9.64         | 10.11 | 10.25 |
| Total risk-based capital  | 10.89        | 11.36 | 11.45 |
| Tier 1 leverage           | 8.42         | 8.11  | 8.58  |

Compared to December 31, 2006 our Tier 1 risk-based capital ratio and total risk-based capital ratio have declined because of the continuing growth in assets and the acquisition of TSB. Our capital ratios are currently in excess of the minimum standards and furthermore continue to be in the "well capitalized" regulatory classifications.

We pay cash dividends to shareholders from funds provided mainly by dividends received from our subsidiary banks. Dividends paid by our bank subsidiaries are subject to certain regulatory restrictions. We must gain approval of the Office of the Comptroller of the Currency in order to pay dividends in excess of our banks' net earnings for the current year, plus retained net profits for the preceding two years, less any required transfers to surplus. As of December 31, 2007, approximately \$35.9 million of the Banks' retained earnings was available for distribution to SCBT as dividends without prior regulatory approval. The following table provides the amount of dividends and payout ratios for the years ended December 31:

**Table 16 Dividends Paid to Shareholders**

| (Dollars in thousands)        | Years Ended December 31, |          |          |
|-------------------------------|--------------------------|----------|----------|
|                               | 2007                     | 2006     | 2005     |
| Shareholder dividend payments | \$ 6,227                 | \$ 5,911 | \$ 5,527 |
| Dividend payout ratios        | 29.17%                   | 30.88%   | 34.29%   |

We retain earnings to have capital sufficient to grow our loan and investment portfolios and to support certain acquisitions or other business expansion opportunities.

### Asset Quality

Asset quality is maintained through our management of certain concentrations of credit risk. We review each individual earning asset including investment securities and loans for credit risk. To facilitate this review, we have established credit and investment policies that include credit limits, documentation, periodic examination, and follow-up. In addition, we examine these portfolios for exposure to concentration in any one industry, government agency, or geographic location.

***Loan and Deposit Concentration***

We have no material concentration of deposits from any single customer or group of customers. We have no significant portion of our loans concentrated within a single industry or group of related industries. Furthermore, we attempt to avoid making loans that, in an aggregate amount, exceed 10 percent of total loans to a multiple number of borrowers engaged in similar business activities. At December 31, 2007 and 2006, there were no aggregated loan concentrations of this type. We do not believe there are any material seasonal factors that would have a material adverse effect on us. We do not have foreign loans or deposits.

***Concentration of Credit Risk***

Each category of earning assets has a certain degree of credit risk. We use various techniques to measure credit risk. Credit risk in the investment portfolio can be measured through bond ratings published by independent agencies. In the investment securities portfolio, 100% of the investments consist of U.S. Government-sponsored enterprise securities, tax-free securities, or other securities having a rating of "A" or better by at least one of the major bond rating agencies. The credit risk of the loan portfolio can be measured by historical experience. We maintain our loan portfolio in accordance with credit policies that we have established.

We consider concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25 percent of total risk-based capital. Based on this criteria, we had five such credit concentrations at December 31, 2007, including loans to borrowers engaged in other activities related to real estate, loans to lessors of nonresidential buildings, loans to religious organizations, loans to borrowers constructing new single family housing, and loans to physicians for office buildings.

***Off-Balance Sheet Arrangements***

Through the operations of our banks, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes.

At December 31, 2007, the banks had issued commitments to extend credit and standby letters of credit and financial guarantees of \$488.7 million through various types of lending arrangements, of which \$358.9 million was at variable rates. We believe that we have adequate sources of liquidity to fund commitments that are drawn upon by the borrowers.

In addition to commitments to extend credit, we also issue standby letters of credit, which are assurances to third parties that they will not suffer a loss if our customer fails to meet its contractual obligation to the third party. Standby letters of credit totaled \$11.4 million at December 31, 2007. Past experience indicates that many of these standby letters of credit will expire unused. However, through our various sources of liquidity, we believe that we will have the necessary resources to meet these obligations should the need arise.

Except as disclosed in this report, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments that significantly impact earnings.

**Effect of Inflation and Changing Prices**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measure of financial position and results of operations in terms of historical dollars, without consideration of changes in the relative purchasing power over time due to inflation. Unlike most other industries, the majority of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on a financial institution's performance than does the effect of inflation. Interest rates do not necessarily change in the same magnitude as the prices of goods and services.

While the effect of inflation on banks is normally not as significant as is its influence on those businesses which have large investments in plant and inventories, it does have an effect. During periods of high inflation, there are normally corresponding increases in money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, general increases in the prices of goods and services will result in increased operating expenses. Inflation also affects our banks' customers and may result in an indirect effect on our Banks' business.

**Contractual Obligations**

The following table presents payment schedules for certain of our contractual obligations as of December 31, 2007. Long-term debt obligations totaling \$143.9 million include advance agreements (borrowings) with the Federal Home Loan Bank (FHLB) of Atlanta and junior subordinated debt. These advances are collateralized by stock in the FHLB of Atlanta, HELOCs, and qualifying first mortgage residential loans and commercial real estate loans under a blanket-floating lien. Operating lease obligations of \$21.8 million pertain to banking facilities and equipment. Certain lease agreements include payment of property taxes and insurance and contain various renewal options. Additional information regarding leases is contained in Note 20 to the audited consolidated financial statements.

**Table 17 Obligations**

| (Dollars in thousands)      | Total             | Less Than 1<br>Year | 1 to 3 Years     | 4 to 5 Years     | More Than 5<br>Years |
|-----------------------------|-------------------|---------------------|------------------|------------------|----------------------|
| Long-term debt obligations* | \$ 143,860        | \$ 47,061           | \$ 17,973        | \$ 32,584        | \$ 46,242            |
| Operating lease obligations | 21,797            | 3,753               | 6,470            | 5,572            | 6,002                |
| <b>Total</b>                | <b>\$ 165,657</b> | <b>\$ 50,814</b>    | <b>\$ 24,443</b> | <b>\$ 38,156</b> | <b>\$ 52,244</b>     |

\*  
Represents principal maturities.

**Item 7A. Quantitative and Qualitative Disclosure about Market Risk**

See "Asset-Liability Management and Market Risk Sensitivity" on page 39 in Management's Discussion and Analysis of Financial Condition and Results of Operations for quantitative and qualitative disclosures about market risk.

**Item 8. Financial Statements and Supplementary Data**

See Table 1 on page 25 for our unaudited quarterly results of operations and the pages beginning with F-1 for the Company's audited consolidated financial statements.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.



**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As of December 31, 2007 (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of management, including our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of SCBT's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. We applied our judgment in the process of reviewing these controls and procedures, which, by their nature, can provide only reasonable assurance regarding our control objectives. Based upon this evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that SCBT's disclosure controls and procedures as of the Evaluation Date were effective to provide reasonable assurance regarding our control objectives.

**Changes in Internal Controls**

There were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Management's Report on Internal Controls Over Financial Reporting**

We are responsible for establishing and maintaining adequate internal control over financial reporting. Management's assessment of the effectiveness of SCBT's internal control over financial reporting as of December 31, 2007 is included in Item 8 of this Report under the heading "Management's Report on Internal Controls Over Financial Reporting."

Our independent auditors have issued an audit report on management's assessment of internal controls over financial reporting. This report titled "Report of Independent Registered Public Accounting Firm" appears in Item 8.

**Item 9B. Other Information**

Not applicable.

## PART III

**Item 10. Directors and Executive Officers of the Registrant**

The information required by this item is incorporated herein by reference to the information in SCBT's definitive proxy statement to be filed in connection with the our 2008 Annual Meeting of Shareholders under the caption "Election of Directors," in the fourth paragraph under the caption "The Board of Directors and Committees," in the subsection titled "Audit Committee" under the caption "The Board of Directors and Committees," in the subsection titled "Governance Committee" under the caption "The Board of Directors and Committees," and under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

**Item 11. Executive Compensation**

The information required by this item is incorporated herein by reference to the information in SCBT's definitive proxy statement to be filed in connection with our 2008 Annual Meeting of Shareholders under the caption "Executive Compensation," including the sections titled "Compensation Discussion and Analysis," "Summary Compensation Table," "Grants of Plan Based Awards," "Outstanding Equity Awards at Fiscal Year-End," "Option Exercises and Stock Vested," "Pension Benefits," "Deferred Compensation Plan," "Compensation Committee Report," "Potential Payments Upon Termination or Change of Control," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation."

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table contains certain information as of December 31, 2007, relating to securities authorized for issuance under our equity compensation plans:

| Plan Category                                              | A                                                                                            |    | B                                                                            |  | C                                                                                                                                           |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------|----|------------------------------------------------------------------------------|--|---------------------------------------------------------------------------------------------------------------------------------------------|
|                                                            | Number of securities to be issued upon exercise of outstanding options, warrants, and rights |    | Weighted-average exercise price of outstanding options, warrants, and rights |  | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column "A") |
| Equity compensation plans approved by security holders     | 336,384                                                                                      | \$ | 26.27                                                                        |  | 730,050                                                                                                                                     |
| Equity compensation plans not approved by security holders | None                                                                                         |    | n/a                                                                          |  | n/a                                                                                                                                         |

Included within the 730,050 number of securities available for future issuance in the table above are a total of 287,881 shares remaining from the authorized total of 363,825 under SCBT's Employee Stock Purchase Plan. All securities totals for the outstanding and remaining available for future issuance amounts described in this Item 12 have been adjusted to give effect to stock dividends paid on January 1, 2005 and March 23, 2007.

Other information required by this item is incorporated herein by reference to the information under the captions "Beneficial Ownership of Certain Parties" and "Beneficial Ownership of Directors and Executive Officers" in the definitive proxy statement of SCBT to be filed in connection with our 2008 Annual Meeting of Shareholders.

**Item 13. Certain Relationships and Related Transactions**

The information required by this item is incorporated herein by reference to the information under the caption "Certain Relationships and Related Transactions" in the definitive proxy statement of SCBT to be filed in connection with our 2008 Annual Meeting of Shareholders.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated by reference to the information under the caption "Audit and Other Fees" in the definitive proxy statement of SCBT to be filed in connection with our 2008 Annual Meeting of Shareholders.

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

(a)

1. The financial statements and independent auditors' report referenced in "Item 8 Financial Statements and Supplementary Data" are listed below:

SCBT Financial Corporation and Subsidiaries  
 Independent Auditors' Report  
 Consolidated Balance Sheets  
 Consolidated Statements of Income  
 Consolidated Statements of Changes in Shareholders' Equity  
 Consolidated Statements of Cash Flows  
 Notes to Consolidated Financial Statements

2. Financial Schedules Filed: None

3. Exhibits

In most cases, documents incorporated by reference to exhibits that have been filed with SCBT's reports or proxy statements under the Securities Exchange Act of 1934 are available to the public over the Internet from the SEC's web site at <http://www.sec.gov>. You may also read and copy any such document at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549 under the Company's SEC file number (001-12669).

| Exhibit No. | Description of Exhibit                                                                                                                                                                                                                    |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1         | Agreement and Plan of Merger between SCBT Financial Corporation and TSB Financial Corporation, dated August 29, 2007 (incorporated by reference to Exhibit 2.1 filed with the Registrant's Current Report on Form 8-K on August 30, 2007) |
| 3.1         | Articles of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.1 filed with the Registrant's Form 10-Q for the quarter ended March 31, 2004)                                                             |
| 3.2         | Bylaws of the Registrant, as amended (incorporated by reference to Exhibit 3.2 filed with the Registrant's Current Report on Form 8-K on September 21, 2007)                                                                              |
| 4.1         | Specimen SCBT Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Annual Report on Form 10-K filed on March 15, 2007)                                                                                  |
| 4.2         | Articles of Incorporation (included as Exhibit 3.1)                                                                                                                                                                                       |
| 4.3         | Bylaws (included as Exhibit 3.2)                                                                                                                                                                                                          |
| 10.1        | First National Corporation Dividend Reinvestment Plan (incorporated by reference to exhibits filed with Registration Statement on Form S-8, Registration No. 33-58692)                                                                    |
| 10.2*       | First National Corporation Incentive Stock Option Plan of 1996 (incorporated by reference to Registrant's Definitive Proxy Statement filed in connection with its 1996 Annual Meeting of Shareholders)                                    |
| 10.3*       | First National Corporation 1999 Stock Option Plan (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8, Registration No. 333-33092)                                                                          |
| 10.4*       | First National Corporation 2002 Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8, File No. 333-90014)                                                        |
| 10.5*       | SCBT Financial Corporation Stock Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed in connection with its 2004 Annual Meeting of Shareholders)                                 |
| 10.6*       | Executive Incentive Plan (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed on March 15, 2005)                                                                                              |
| 10.7*       | Compensation of Directors (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed on March 15, 2005)                                                                                             |

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- 10.8 Guarantee Agreement between SCBT Financial Corporation and Wilmington Trust Company, which is (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 13, 2005)
- 10.9 Amended and Restated Declaration of Trust among SCBT Financial Corporation, as Sponsor, Wilmington Trust Company, as Institutional Trustee, Wilmington Trust Company, as Delaware Trustee, and the Administrators Named therein, including exhibits containing the related forms of the SCBT Capital Trust I Common Securities Certificate and the Preferred Securities Certificate, which is (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 13, 2005)
- 10.10 Guarantee Agreement between SCBT Financial Corporation and Wilmington Trust Company, which is (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on April 13, 2005)
- 10.11 Amended and Restated Declaration of Trust among SCBT Financial Corporation, as Sponsor, Wilmington Trust Company, as Institutional Trustee, Wilmington Trust Company, as Delaware Trustee, and the Administrators Named therein, including exhibits containing the related forms of the SCBT Capital Trust II Common Securities Certificate and the Preferred Securities Certificate, which is (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on April 13, 2005)
- 10.12 Employment Agreement between SCBT Financial Corporation and Thomas Bouchette, which is (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 22, 2005)
- 10.13 Noncompete Agreement between SCBT Financial Corporation and Thomas Bouchette, which is (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 22, 2005)
- 10.14 Guarantee Agreement between SCBT Financial Corporation and JPMorgan Chase Bank, National Association, which is (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 22, 2005)
- 10.15 Amended and Restated Declaration of Trust among SCBT Financial Corporation, as Sponsor, JPMorgan Chase Bank, National Association, as Institutional Trustee, Chase Bank USA, National Association, as Delaware Trustee, and the Administrators Named therein, including exhibits containing the related forms of the SCBT Capital Trust III Capital Securities Certificate and the Common Securities Certificate, which is (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 22, 2005)
- 10.16 Form of SCBT Financial Corporation Restricted Stock Agreement for Restricted Stock Awarded to Directors Under the SCBT Financial Corporation Stock Incentive Plan, effective as of May 27, 2004 (incorporated by reference to Exhibit 10.28 of the Registrant's Annual Report on Form 10-K filed on March 16, 2006)
- 10.17 Form of SCBT Financial Corporation Restricted Stock Agreement for Restricted Stock Awarded to Employees Under the SCBT Financial Corporation Stock Incentive Plan, effective as of May 27, 2004 (incorporated by reference to Exhibit 10.29 of the Registrant's Annual Report on Form 10-K filed on March 16, 2006)
- 10.18 Form of SCBT Financial Corporation Stock Option Agreement for Options Granted to Directors Under the SCBT Financial Corporation Stock Incentive Plan, effective as of May 27, 2004 (incorporated by reference to Exhibit 10.30 of the Registrant's Annual Report on Form 10-K filed on March 16, 2006)
- 10.19 Form of SCBT Financial Corporation Stock Option Agreement for Options Granted to Affiliates Under the SCBT Financial Corporation Stock Incentive Plan, effective as of May 27, 2004 (incorporated by reference to Exhibit 10.31 of the Registrant's Annual Report on Form 10-K filed on March 16, 2006)

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- 10.20\* Amended and Restated Employment Agreement between the Registrant and Robert R. Hill, Jr., effective as of May 1, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.21\* Amended and Restated Employment Agreement between the Registrant and Thomas S. Camp, effective as of September 1, 2006 (incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.22\* Amended and Restated Employment Agreement between the Registrant and John C. Pollok, effective as of September 1, 2006 (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.23\* Amended and Restated Employment Agreement between the Registrant and Richard C. Mathis, effective as of September 1, 2006 (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.24\* Amended and Restated Employment Agreement between the Registrant and Joe E. Burns, effective as of September 1, 2006 (incorporated by reference to Exhibit 10.5 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.25\* Employment Agreement between the Registrant and John F. Windley, effective as of September 1, 2006 (incorporated by reference to Exhibit 10.6 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.26\* Employment Agreement between the Registrant and Dane H. Murray, effective as of September 1, 2006 (incorporated by reference to Exhibit 10.7 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.27\* Amended and Restated Supplemental Executive Retirement Agreement between South Carolina Bank and Trust, National Association and Robert R. Hill, Jr., effective as of July 1, 2006 (incorporated by reference to Exhibit 10.8 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.28\* Amended and Restated Supplemental Executive Retirement Agreement between South Carolina Bank and Trust, National Association and Thomas S. Camp, effective as of July 1, 2006 (incorporated by reference to Exhibit 10.11 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.29\* Amended and Restated Supplemental Executive Retirement Agreement between South Carolina Bank and Trust, National Association and John C. Pollok, effective as of July 1, 2006 (incorporated by reference to Exhibit 10.9 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.30\* Amended and Restated Supplemental Executive Retirement Agreement between South Carolina Bank and Trust, National Association and Richard C. Mathis, effective as of July 1, 2006 (incorporated by reference to Exhibit 10.10 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.31\* Amended and Restated Supplemental Executive Retirement Agreement between South Carolina Bank and Trust, National Association and Joseph E. Burns, effective as of July 1, 2006 (incorporated by reference to Exhibit 10.12 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.32\* Supplemental Executive Retirement Agreement between South Carolina Bank and Trust, National Association and John F. Windley, effective as of July 1, 2006 (incorporated by reference to Exhibit 10.13 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.33\* Supplemental Executive Retirement Agreement between South Carolina Bank and Trust, National Association and Dane H. Murray, effective as of July 1, 2006 (incorporated by reference to Exhibit 10.14 to the Registrant's Form 8-K filed on November 7, 2006)
- 10.34\* 2006 Long-Term Retention and Incentive Plan (incorporated by reference to Exhibit 10.15 to the Registrant's Form 8-K filed on November 7, 2006)

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- 10.35\* Amended and Restated South Carolina Bank and Trust Deferred Income Plan executed on November 16, 2006 to be effective January 1, 2005 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on November 22, 2006)
  - 10.36 Amended and Restated South Carolina Bank and Trust Non-Employee Directors Deferred Income Plan executed on November 16, 2006 to be effective January 1, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on November 22, 2006)
  - 10.37 Form of Agreement for Restricted Stock Issued Pursuant to the Long-Term Retention and Incentive Plan (incorporated by reference to Exhibit 10.37 of the Registrant's Annual Report on Form 10-K filed on March 15, 2007)
  - 14 SCBT Code of Ethics, which is (incorporated by reference to Exhibit 14 to the Registrant's Current Report on Form 10-K filed on March 12, 2004.)
  - 21 Subsidiaries of the Registrant
  - 23 Consent of J. W. Hunt and Company, LLP
  - 24 Power of Attorney (filed with the signature page hereof)
  - 31.1 Rule 13a-14(a) Certification of the Principal Executive Officer
  - 31.2 Rule 13a-14(a) Certification of the Principal Financial Officer
  - 32 Section 1350 Certifications
  - 99.1 Supplemental Materials Distributed to Shareholders
- 

\*

Denotes a management compensatory plan or arrangement.

(b)

See Exhibit Index following the Annual Report on Form 10-K for a listing of exhibits filed herewith.

(c)

Not Applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Columbia and State of South Carolina, on the 17th day of March, 2008.

SCBT FINANCIAL CORPORATION  
(Registrant)

By:                                          /s/ ROBERT R. HILL, JR.

Robert R. Hill, Jr.  
*President and Chief Executive Officer*

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert R. Hill, Jr., his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated.

| Signature                                              | Title                                                                                   | Date           |
|--------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------|
| /s/ ROBERT R. HILL, JR.<br><br>Robert R. Hill, Jr.     | President and Chief Executive Officer                                                   | March 17, 2008 |
| /s/ JOHN C. POLLOK<br><br>John C. Pollok               | Senior Executive Vice President,<br>Chief Operating Officer and Chief Financial Officer | March 17, 2008 |
| /s/ RICHARD C. MATHIS<br><br>Richard C. Mathis         | Executive Vice President and Chief Risk Officer                                         | March 17, 2008 |
| /s/ KAREN L. DEY<br><br>Karen L. Dey                   | Senior Vice President and Controller                                                    | March 17, 2008 |
| /s/ ROBERT R. HORGER<br><br>Robert R. Horger           | Chairman of the Board of Directors                                                      | March 17, 2008 |
| /s/ JIMMY E. ADDISON<br><br>Jimmy E. Addison           | Director                                                                                | March 17, 2008 |
| /s/ COLDEN R. BATTEY, JR.<br><br>Colden R. Battey, Jr. | Director                                                                                | March 17, 2008 |



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|                                          |          |                |
|------------------------------------------|----------|----------------|
| <hr/> <i>/s/ LUTHER J. BATTISTE, III</i> | Director | March 17, 2008 |
| Luther J. Battiste, III                  |          |                |
| <hr/> <i>/s/ LM. OSWALD FOGLE</i>        | Director | March 17, 2008 |
| M. Oswald Fogle                          |          |                |
| <hr/> <i>/s/ DALTON B. FLOYD, JR.</i>    | Director | March 17, 2008 |
| Dalton B. Floyd, Jr.                     |          |                |
| <hr/> <i>/s/ DWIGHT W. FRIERSON</i>      | Director | March 17, 2008 |
| Dwight W. Frierson                       |          |                |
| <hr/> <i>/s/ HARRY M. MIMS, JR.</i>      | Director | March 17, 2008 |
| Harry M. Mims, Jr.                       |          |                |
| <hr/> <i>/s/ RALPH W. NORMAN</i>         | Director | March 17, 2008 |
| Ralph W. Norman                          |          |                |
| <hr/> <i>/s/ ALTON C. PHILLIPS</i>       | Director | March 17, 2008 |
| Alton C. Phillips                        |          |                |
| <hr/> <i>/s/ JAMES W. ROQUEMORE</i>      | Director | March 17, 2008 |
| James W. Roquemore                       |          |                |
| <hr/> <i>/s/ THOMAS E. SUGGS</i>         | Director | March 17, 2008 |
| Thomas E. Suggs                          |          |                |
| <hr/> <i>/s/ SUSIE H. VANHUSS</i>        | Director | March 17, 2008 |
| Susie H. VanHuss                         |          |                |
| <hr/> <i>/s/ A. DEWALL WATERS</i>        | Director | March 17, 2008 |
| A. Dewall Waters                         |          |                |
| <hr/> <i>/s/ JOHN W. WILLIAMSON, III</i> | Director | March 17, 2008 |
| John W. Williamson, III                  |          |                |
| <hr/> <i>/s/ CATHY COX YEADON</i>        | Director | March 17, 2008 |
| Cathy Cox Yeadon                         |          |                |

**EXHIBIT INDEX**

**Exhibit No.** **Description of Exhibit**

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|      |                                                                 |
|------|-----------------------------------------------------------------|
| 21   | Subsidiaries of the Registrant                                  |
| 23   | Consent of J.W. Hunt and Company, LLP                           |
| 31.1 | Rule 13a-14(a) Certification of the Principal Executive Officer |
| 31.2 | Rule 13a-14(a) Certification of the Principal Financial Officer |
| 32   | Section 1350 Certifications                                     |
| 99.1 | Supplemental Materials Distributed to Shareholders              |

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## MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of SCBT Financial Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Management has assessed the effectiveness of internal control over financial reporting using the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the testing performed using the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management of the Company believes that the company's internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of our internal control over financial reporting as of December 31, 2007, has been audited by J. W. Hunt and Company, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

SCBT Financial Corporation  
Columbia, South Carolina  
March 17, 2008

www.SCBTonline.com  
(803) 771-2265 -- P.O. Box 1030 -- Columbia, South Carolina -- 29202-1030

JOHN C. CREECH, JR., CPA  
ANNE H. ROSS, CPA  
WILLIAM F.  
QUATTLEBAUM, CPA, CVA  
WILLIAM T. POUNCEY,  
CPA  
DAVID J. FRYER, CPA

**J. W. HUNT AND COMPANY, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
PRIVATE COMPANIES PRACTICE SECTION AND  
CENTER FOR PUBLIC COMPANY AUDIT FIRMS  
CPA ASSOCIATES INTERNATIONAL, INC.,  
A WORLDWIDE NETWORK OF ACCOUNTING FIRMS

MIDDLEBURG  
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COLUMBIA, SC  
29202-0265  
803-254-8196  
803-299-8196  
FAX 803-256-1524  
jwhunt.com

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Shareholders of SCBT Financial Corporation

We have audited the accompanying consolidated balance sheets of SCBT Financial Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited SCBT Financial Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SCBT Financial Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SCBT Financial Corporation and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, SCBT Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ J.W. Hunt and Company, LLP

Columbia, South Carolina  
March 17, 2008

## SCBT Financial Corporation and Subsidiaries

## Consolidated Balance Sheets

(Dollars in thousands, except par value)

|                                                                                                                    | December 31, |              |
|--------------------------------------------------------------------------------------------------------------------|--------------|--------------|
|                                                                                                                    | 2007         | 2006         |
| <b>ASSETS</b>                                                                                                      |              |              |
| Cash and cash equivalents:                                                                                         |              |              |
| Cash and due from banks                                                                                            | \$ 62,595    | \$ 45,460    |
| Interest-bearing deposits with banks                                                                               | 3,437        | 2,946        |
| Federal funds sold and securities purchased under agreements to resell                                             | 29,301       | 30,000       |
| Total cash and cash equivalents                                                                                    | 95,333       | 78,406       |
| Investment securities:                                                                                             |              |              |
| Securities held to maturity (fair value of \$21,215 in 2007 and \$18,271 in 2006)                                  | 21,457       | 18,112       |
| Securities available for sale, at fair value                                                                       | 223,580      | 182,113      |
| Other investments                                                                                                  | 13,472       | 10,166       |
| Total investment securities                                                                                        | 258,509      | 210,391      |
| Loans held for sale                                                                                                | 17,351       | 23,236       |
| Loans:                                                                                                             | 2,083,292    | 1,760,860    |
| Less unearned income                                                                                               | (245)        | (30)         |
| Less allowance for loan losses                                                                                     | (26,570)     | (22,668)     |
| Loans, net                                                                                                         | 2,056,477    | 1,738,162    |
| Premises and equipment, net                                                                                        | 55,454       | 48,904       |
| Goodwill                                                                                                           | 61,709       | 32,313       |
| Other assets                                                                                                       | 52,350       | 47,001       |
| Total assets                                                                                                       | \$ 2,597,183 | \$ 2,178,413 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                        |              |              |
| Deposits:                                                                                                          |              |              |
| Noninterest-bearing                                                                                                | \$ 315,791   | \$ 256,717   |
| Interest-bearing                                                                                                   | 1,612,098    | 1,449,998    |
| Total deposits                                                                                                     | 1,927,889    | 1,706,715    |
| Federal funds purchased and securities sold under agreements to repurchase                                         | 296,186      | 203,105      |
| Other borrowings                                                                                                   | 143,860      | 90,416       |
| Other liabilities                                                                                                  | 14,183       | 16,289       |
| Total liabilities                                                                                                  | 2,382,118    | 2,016,525    |
| Shareholders' equity:                                                                                              |              |              |
| Common stock \$2.50 par value; authorized 40,000,000 shares 10,160,432 and 8,719,146 shares issued and outstanding | 25,401       | 21,798       |
| Surplus                                                                                                            | 140,652      | 92,099       |

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|                                            | December 31,                |                             |
|--------------------------------------------|-----------------------------|-----------------------------|
|                                            | <u>                    </u> | <u>                    </u> |
| Retained earnings                          | 50,499                      | 51,508                      |
| Accumulated other comprehensive loss       | (1,487)                     | (3,517)                     |
|                                            | <u>                    </u> | <u>                    </u> |
| Total shareholders' equity                 | 215,065                     | 161,888                     |
|                                            | <u>                    </u> | <u>                    </u> |
| Total liabilities and shareholders' equity | \$ 2,597,183                | \$ 2,178,413                |
|                                            | <u>                    </u> | <u>                    </u> |

The Accompanying Notes are an Integral Part of the Financial Statements.

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## SCBT Financial Corporation and Subsidiaries

## Consolidated Statements of Income

(Dollars in thousands, except per share data)

|                                                                            | Years Ended December 31, |                |               |
|----------------------------------------------------------------------------|--------------------------|----------------|---------------|
|                                                                            | 2007                     | 2006           | 2005          |
| <b>Interest income:</b>                                                    |                          |                |               |
| Loans, including fees                                                      | \$ 135,608               | \$ 116,831     | \$ 81,865     |
| Investment securities:                                                     |                          |                |               |
| Taxable                                                                    | 10,316                   | 8,551          | 6,162         |
| Tax-exempt                                                                 | 1,302                    | 1,165          | 1,217         |
| Federal funds sold and securities purchased under agreements to resell     | 1,766                    | 1,058          | 949           |
| Money market funds                                                         |                          |                | 1             |
| Deposits with banks                                                        | 207                      | 203            | 374           |
|                                                                            | <u>149,199</u>           | <u>127,808</u> | <u>90,568</u> |
| <b>Interest expense:</b>                                                   |                          |                |               |
| Deposits                                                                   | 53,157                   | 40,830         | 21,146        |
| Federal funds purchased and securities sold under agreements to repurchase | 9,180                    | 6,076          | 3,031         |
| Other borrowings                                                           | 6,185                    | 7,375          | 4,533         |
|                                                                            | <u>68,522</u>            | <u>54,281</u>  | <u>28,710</u> |
| <b>Net interest income:</b>                                                |                          |                |               |
| Net interest income                                                        | 80,677                   | 73,527         | 61,858        |
| Provision for loan losses                                                  | 4,384                    | 5,268          | 4,907         |
|                                                                            | <u>76,293</u>            | <u>68,259</u>  | <u>56,951</u> |
| <b>Noninterest income:</b>                                                 |                          |                |               |
| Service charges on deposit accounts                                        | 15,114                   | 13,377         | 12,473        |
| Secondary market mortgage fees                                             | 5,796                    | 5,613          | 5,054         |
| Bankcard services income                                                   | 4,136                    | 3,422          | 2,647         |
| Trust and investment services income                                       | 2,566                    | 2,148          | 1,695         |
| Securities losses, net of gains                                            | (460)                    | (330)          | (202)         |
| Other                                                                      | 2,607                    | 1,881          | 1,986         |
|                                                                            | <u>29,759</u>            | <u>26,111</u>  | <u>23,653</u> |
| <b>Noninterest expense:</b>                                                |                          |                |               |
| Salaries and employee benefits                                             | 41,712                   | 36,555         | 30,349        |
| Furniture and equipment expense                                            | 5,758                    | 4,989          | 4,601         |
| Net occupancy expense                                                      | 4,950                    | 4,227          | 3,493         |
| Advertising and marketing                                                  | 3,143                    | 3,186          | 2,499         |
| Professional fees                                                          | 2,072                    | 2,112          | 1,944         |
| Amortization of CDI                                                        | 509                      | 526            | 315           |
| Merger expense                                                             | 811                      |                |               |
| Other                                                                      | 14,847                   | 12,686         | 12,925        |
|                                                                            | <u>73,802</u>            | <u>64,281</u>  | <u>56,126</u> |



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Years Ended December 31,

| <b>Earnings:</b>                                   |                  |           |           |
|----------------------------------------------------|------------------|-----------|-----------|
| Income before provision for income taxes           | <b>32,250</b>    | 30,089    | 24,478    |
| Provision for income taxes                         | <b>10,685</b>    | 10,284    | 7,823     |
| <b>Net income</b>                                  | <b>\$ 21,565</b> | \$ 19,805 | \$ 16,655 |
| <b>Earnings per share:</b>                         |                  |           |           |
| Basic                                              | <b>\$ 2.33</b>   | \$ 2.17   | \$ 1.95   |
| Diluted                                            | <b>\$ 2.32</b>   | \$ 2.15   | \$ 1.93   |
| Dividends per share                                | <b>\$ 0.68</b>   | \$ 0.68   | \$ 0.68   |
| <b>Weighted average common shares outstanding:</b> |                  |           |           |
| Basic                                              | <b>9,275</b>     | 9,126     | 8,539     |
| Diluted                                            | <b>9,305</b>     | 9,218     | 8,622     |

The Accompanying Notes are an Integral Part of the Financial Statements.

## SCBT Financial Corporation and Subsidiaries

## Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, except per share data)

|                                                                                          | Common Stock |           | Stock Dividend<br>Distributable | Surplus   | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss) | Total      |
|------------------------------------------------------------------------------------------|--------------|-----------|---------------------------------|-----------|----------------------|-----------------------------------------------------|------------|
|                                                                                          | Shares       | Amount    |                                 |           |                      |                                                     |            |
| Balance, December 31, 2004                                                               | 7,657,094    | \$ 19,143 | \$ 955                          | \$ 72,079 | \$ 26,486            | \$ 135                                              | \$ 118,798 |
| Comprehensive income:                                                                    |              |           |                                 |           |                      |                                                     |            |
| Net income                                                                               |              |           |                                 |           | 16,655               |                                                     | 16,655     |
| Other comprehensive income, net of tax effects                                           |              |           |                                 |           |                      |                                                     |            |
| Net unrealized gain on securities available for sale, net of reclassification adjustment |              |           |                                 |           |                      | (1,439)                                             | (1,439)    |
| Total comprehensive income                                                               |              |           |                                 |           |                      |                                                     | 15,216     |
| Cash dividends declared at \$.68 per share                                               |              |           |                                 |           | (5,527)              |                                                     | (5,527)    |
| Stock options exercised                                                                  | 21,191       | 53        |                                 | 342       |                      |                                                     | 395        |
| Employee stock purchases                                                                 | 12,166       | 30        |                                 | 287       |                      |                                                     | 317        |
| Restricted stock awards                                                                  | 17,067       | 43        |                                 | 516       |                      |                                                     | 559        |
| Common stock repurchased                                                                 | (8,342)      | (21)      |                                 | (231)     |                      |                                                     | (252)      |
| Common stock issued                                                                      | 564,379      | 1,411     |                                 | 17,486    |                      |                                                     | 18,897     |
| Common stock dividend issued                                                             | 381,328      | 953       | (955)                           | 2         |                      |                                                     |            |
| Balance, December 31, 2005                                                               | 8,644,883    | 21,612    |                                 | 90,481    | 37,614               | (1,304)                                             | 148,403    |
| Comprehensive income:                                                                    |              |           |                                 |           |                      |                                                     |            |
| Net income                                                                               |              |           |                                 |           | 19,805               |                                                     | 19,805     |
| Other comprehensive income, net of tax effects                                           |              |           |                                 |           |                      |                                                     |            |
| Net unrealized gain on securities available for sale, net of reclassification adjustment |              |           |                                 |           |                      | 402                                                 | 402        |
| Total comprehensive income                                                               |              |           |                                 |           |                      |                                                     | 20,207     |
| Cash dividends declared at \$.68 per share                                               |              |           |                                 |           | (5,911)              |                                                     | (5,911)    |
| Stock options exercised                                                                  | 45,523       | 114       |                                 | 727       |                      |                                                     | 841        |
| Employee stock purchases                                                                 | 14,054       | 35        |                                 | 388       |                      |                                                     | 423        |
| Restricted stock awards                                                                  | 26,441       | 66        |                                 | (66)      |                      |                                                     |            |
| Common stock repurchased                                                                 | (11,755)     | (29)      |                                 | (414)     |                      |                                                     | (443)      |
| Share-based compensation expense                                                         |              |           |                                 | 983       |                      |                                                     | 983        |
| Adjustment to initially apply FASB Statement No. 158, net of tax                         |              |           |                                 |           |                      | (2,615)                                             | (2,615)    |
| Balance, December 31, 2006                                                               | 8,719,146    | 21,798    |                                 | 92,099    | 51,508               | (3,517)                                             | 161,888    |
| Comprehensive income:                                                                    |              |           |                                 |           |                      |                                                     |            |
| Net income                                                                               |              |           |                                 |           | 21,565               |                                                     | 21,565     |
| Other comprehensive income, net of tax effects                                           |              |           |                                 |           |                      |                                                     |            |
| Pension and retiree medical plan                                                         |              |           |                                 |           |                      | 347                                                 | 347        |
| Net unrealized gain on securities available for sale, net of reclassification adjustment |              |           |                                 |           |                      | 1,683                                               | 1,683      |
| Total comprehensive income                                                               |              |           |                                 |           |                      |                                                     | 23,595     |
| Cash dividends declared at \$.68 per share                                               |              |           |                                 |           | (6,227)              |                                                     | (6,227)    |
| Stock options exercised                                                                  | 12,830       | 32        |                                 | 226       |                      |                                                     | 258        |
| Employee stock purchases                                                                 | 20,904       | 52        |                                 | 561       |                      |                                                     | 613        |
| Restricted stock awards                                                                  | 34,890       | 87        |                                 | (87)      |                      |                                                     |            |

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Common Stock

|                                         |            |           |            |           |            |            |
|-----------------------------------------|------------|-----------|------------|-----------|------------|------------|
| Common stock repurchased                | (0)        | (86)      | (92)       |           |            |            |
| Share based compensation expense        | (2,474)    | 1,002     | 1,002      |           |            |            |
| Common stock issued for TSB acquisition | 939,372    | 2,349     | 31,679     | 34,028    |            |            |
| Common stock dividend                   | 435,764    | 1,089     | 15,258     | (16,347)  |            |            |
| Balance, December 31, 2007              | 10,160,432 | \$ 25,401 | \$ 140,652 | \$ 50,499 | \$ (1,487) | \$ 215,065 |

The Accompanying Notes are an Integral Part of the Financial Statements.

## SCBT Financial Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

(Dollars in thousands)

|                                                                                                                            | Years Ended December 31, |                  |                  |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------|------------------|
|                                                                                                                            | 2007                     | 2006             | 2005             |
| <b>Cash flows from operating activities:</b>                                                                               |                          |                  |                  |
| Net income                                                                                                                 | \$ 21,565                | \$ 19,805        | \$ 16,655        |
| Adjustments to reconcile net income to net cash provided by operating activities:                                          |                          |                  |                  |
| Depreciation and amortization                                                                                              | 4,324                    | 3,267            | 3,057            |
| Provision for loan losses                                                                                                  | 4,384                    | 5,268            | 4,907            |
| Deferred income taxes                                                                                                      | 705                      | (714)            | (1,591)          |
| Loss on sale of securities available for sale                                                                              | 460                      | 330              | 202              |
| Share-based compensation expense                                                                                           | 1,002                    | 983              |                  |
| Gain on sale of assets                                                                                                     | (38)                     |                  | (7)              |
| Net amortization (accretion) of investment securities                                                                      | (225)                    | (96)             | 309              |
| Net change in:                                                                                                             |                          |                  |                  |
| Loans held for sale                                                                                                        | 5,885                    | (10,275)         | 876              |
| Accrued interest receivable                                                                                                | (167)                    | (2,648)          | (2,317)          |
| Prepaid assets                                                                                                             | 500                      | 244              | (614)            |
| Cash surrender value of life insurance                                                                                     |                          | (10,000)         |                  |
| Miscellaneous other assets                                                                                                 | (240)                    | (87)             | 1,620            |
| Accrued interest payable                                                                                                   | (2,007)                  | 4,674            | 1,622            |
| Accrued income taxes                                                                                                       | (712)                    | 4                | 517              |
| Miscellaneous other liabilities                                                                                            | (1,114)                  | 120              | 445              |
| Net cash provided by operating activities                                                                                  | <b>34,322</b>            | <b>10,875</b>    | <b>25,681</b>    |
| <b>Cash flows from investing activities:</b>                                                                               |                          |                  |                  |
| Proceeds from sales of investment securities available for sale                                                            | 25,353                   | 10,371           | 6,998            |
| Proceeds from maturities and calls of investment securities held to maturity                                               | 3,645                    | 6,437            | 6,367            |
| Proceeds from maturities of investment securities available for sale                                                       | 60,491                   | 23,935           | 25,262           |
| Proceeds from sales of other investment securities                                                                         | 4,502                    | 4,639            | 788              |
| Purchases of investment securities available for sale                                                                      | (94,359)                 | (62,264)         | (34,698)         |
| Purchases of investment securities held to maturity                                                                        | (7,005)                  | (6,384)          |                  |
| Purchases of other investment securities                                                                                   | (6,715)                  | (3,884)          | (4,991)          |
| Net increase in customer loans                                                                                             | (169,378)                | (228,368)        | (229,171)        |
| Recoveries of loans previously charged off                                                                                 | 1,008                    | 813              | 383              |
| Acquisition, net of cash acquired                                                                                          | (2,462)                  |                  | (20,650)         |
| Purchase of trust preferred securities                                                                                     |                          |                  | (840)            |
| Purchases of premises and equipment                                                                                        | (8,463)                  | (8,700)          | (5,300)          |
| Proceeds from sale of premises and equipment                                                                               | 128                      | 399              | 141              |
| Net cash used in investing activities                                                                                      | <b>(193,255)</b>         | <b>(263,006)</b> | <b>(255,711)</b> |
| <b>Cash flows from financing activities:</b>                                                                               |                          |                  |                  |
| Net increase in deposits                                                                                                   | 52,370                   | 233,426          | 133,975          |
| Net increase in federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings | 89,038                   | 52,442           | 62,956           |
| Proceeds from FHLB advances                                                                                                | 210,000                  | 40,000           | 100,329          |
| Repayment of FHLB advances                                                                                                 | (170,100)                | (93,375)         | (16,602)         |
| Common stock issuance                                                                                                      | 613                      | 423              | 876              |
| Common stock repurchased                                                                                                   | (92)                     | (443)            | (252)            |

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|                                                      | Years Ended December 31, |           |            |
|------------------------------------------------------|--------------------------|-----------|------------|
| Dividends paid                                       | (6,227)                  | (5,911)   | (5,527)    |
| Stock options exercised                              | 258                      | 841       | 395        |
| Payments on noncompete agreements                    |                          |           | (123)      |
|                                                      | <b>175,860</b>           | 227,403   | 276,027    |
| Net cash provided by financing activities            |                          |           |            |
| Net increase (decrease) in cash and cash equivalents | <b>16,927</b>            | (24,728)  | 45,997     |
| Cash and cash equivalents at beginning of period     | <b>78,406</b>            | 103,134   | 57,137     |
| Cash and cash equivalents at end of period           | <b>\$ 95,333</b>         | \$ 78,406 | \$ 103,134 |

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## SCBT Financial Corporation and Subsidiaries

## Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands)

**Supplemental Disclosures:**

## Cash Flow Information:

## Cash paid for:

|          |    |        |    |        |    |        |
|----------|----|--------|----|--------|----|--------|
| Interest | \$ | 70,224 | \$ | 49,607 | \$ | 26,351 |
|----------|----|--------|----|--------|----|--------|

|              |    |        |    |        |    |       |
|--------------|----|--------|----|--------|----|-------|
| Income taxes | \$ | 11,708 | \$ | 11,141 | \$ | 8,887 |
|--------------|----|--------|----|--------|----|-------|

**Schedule of Noncash Investing****Transactions:**

## Acquisitions:

|                                        |    |         |    |  |    |        |
|----------------------------------------|----|---------|----|--|----|--------|
| Fair value of tangible assets acquired | \$ | 194,289 | \$ |  | \$ | 97,497 |
|----------------------------------------|----|---------|----|--|----|--------|

|                                               |  |        |  |  |  |        |
|-----------------------------------------------|--|--------|--|--|--|--------|
| Goodwill and other intangible assets acquired |  | 30,378 |  |  |  | 17,424 |
|-----------------------------------------------|--|--------|--|--|--|--------|

|                     |  |           |  |  |  |          |
|---------------------|--|-----------|--|--|--|----------|
| Liabilities assumed |  | (188,177) |  |  |  | (88,346) |
|---------------------|--|-----------|--|--|--|----------|

|                     |  |          |  |  |  |          |
|---------------------|--|----------|--|--|--|----------|
| Common stock issued |  | (34,028) |  |  |  | (18,897) |
|---------------------|--|----------|--|--|--|----------|

## Real estate acquired in full or in partial settlement of loans

|  |  |       |  |     |  |       |
|--|--|-------|--|-----|--|-------|
|  |  | 1,538 |  | 703 |  | 1,073 |
|--|--|-------|--|-----|--|-------|

|  |    |       |    |     |    |       |
|--|----|-------|----|-----|----|-------|
|  | \$ | 4,000 | \$ | 703 | \$ | 8,751 |
|--|----|-------|----|-----|----|-------|

The Accompanying Notes are an Integral Part of the Financial Statements.

**Note 1 Summary of Significant Accounting Policies**

***Nature of Operations***

SCBT Financial Corporation (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, South Carolina Bank and Trust, N.A., South Carolina Bank and Trust of the Piedmont, N.A., and The Scottish Bank, N.A. The banks provide general banking services within the State of South Carolina and Mecklenburg County of North Carolina. The accounting and reporting policies of the Company and its subsidiaries conform with accounting principles generally accepted in the United States of America. SCBT Capital Trust I and SCBT Capital Trust II are unconsolidated subsidiaries of the Company established for the purpose of issuing an aggregate of \$20.0 million of trust preferred securities. SCBT Capital Trust III is an unconsolidated subsidiary of the Company established for the purpose of issuing an aggregate of \$20.0 million of trust preferred securities. TSB Statutory Trust I is an unconsolidated subsidiary of the Company acquired in the TSB merger and established for the purpose of issuing an aggregate of \$3.0 million of trust preferred securities. On November 30, 2007, the Company acquired TSB Financial Corporation, the parent company of The Scottish Bank, N.A.

***Basis of Consolidation***

The consolidated financial statements include the accounts of the Company and other entities in which it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation. Assets held by the Company in trust are not assets of the Company and are not included in the accompanying consolidated financial statements.

***Segments***

The Company, through its subsidiaries, provides a broad range of financial services to individuals and companies in South Carolina and North Carolina. These services include demand, time and savings deposits; lending and credit card servicing; ATM processing; and trust services. While the Company's decision makers monitor the revenue streams of the various financial products and services, operations are managed and financial performance is evaluated on an organization-wide basis. Accordingly, the Company's banking and finance operations are not considered by management to be more than one reportable operating segment.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments, and valuation of deferred tax assets. In connection with the determination of the allowance for loan losses, management has identified specific loans as well as adopted a policy of providing amounts for loan valuation purposes which are not identified with any specific loan but are derived from actual loss experience ratios, loan types, loan volume, economic conditions and industry standards. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of the examination process, periodically review the banking subsidiaries' allowance for loan losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

***Concentrations of Credit Risk***

The Company's subsidiaries grant agribusiness, commercial, and residential loans to customers throughout South Carolina and North Carolina. Although the subsidiaries have diversified loan portfolios, a substantial portion of their borrowers' abilities to honor their contracts is dependent upon economic conditions within South Carolina, North Carolina and the surrounding regions.

The Company considers concentrations of credit to exist when, pursuant to regulatory guidelines, the amounts loaned to a multiple number of borrowers engaged in similar business activities which would cause them to be similarly impacted by general economic conditions represents 25% of total risk-based capital, or \$54.7 million at December 31, 2007. Based on this criteria, the Company had five such credit concentrations at the end of 2007, including \$185.1 million of loans to borrowers engaged in other activities related to real estate, \$83.6 million of loans to lessors of nonresidential buildings, \$73.8 million of loans to religious organizations, \$72.0 million of loans to borrowers constructing new single family housing, and \$62.0 million loans to physicians for office buildings.

***Cash and Cash Equivalents***

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items in process of collection, amounts due from banks, interest bearing deposits with banks, purchases of securities under agreements to resell, and federal funds sold. Due from bank balances are maintained in other financial institutions. Federal funds sold are generally purchased and sold for one-day periods, but may from time to time have longer terms.

The Company enters into purchases of securities under agreements to resell substantially identical securities for the purpose of collateralizing certain customer deposit relationships. Securities purchased under agreements to resell at December 31, 2007 and 2006 consisted of U.S. Government-Sponsored Enterprises and mortgage-backed securities. It is the Company's policy to take possession of securities purchased under agreements to resell. The securities are delivered into the Company's account maintained by a third-party custodian designated by the Company under a written custodial agreement that explicitly recognizes the Company's interest in the securities. At December 31, 2007, these agreements were considered to be short-term investments with maturities of three months or less.

***Investment Securities***

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and carried at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and carried at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses realized on sales of securities available for sale are determined using the specific identification method. In estimating other-than-temporary impairment losses, management considers: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuers, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments include stock acquired for regulatory purposes and trust preferred securities. Stock acquired for regulatory purposes includes Federal Home Loan Bank of Atlanta ("FHLB") stock and Federal Reserve Bank stock. These securities do not have a readily determinable fair value because



their ownership is restricted and they lack a market for trading. As a result, these securities are carried at cost and are periodically evaluated for impairment. Trust preferred securities represent a minority investment in SCBT Capital Trust I, SCBT Capital Trust II, SCBT Capital Trust III, and TSB Statutory Trust I. These investments are recorded at cost and the Company receives quarterly dividend payments on these investments.

#### ***Loans Held for Sale***

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Estimated fair value is determined on the basis of existing forward commitments, or the current market value of similar loans. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

#### ***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their unpaid principal balances, less unearned income and net of any deferred loan fees and costs. Unearned income on installment loans are recognized as income over the terms of the loans by methods that generally approximate the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are placed on nonaccrual status depending upon the type of loan, the past due status, and the collection activities in progress. Well-secured loans, in the process of collection, are allowed to remain on an accrual basis until they become 120 days past due. Partially secured loans are written down to the collateral value and placed on nonaccrual status on or before becoming 90 days past due. Unsecured commercial loans are charged off on or before the date they become 90 days past due. Closed end consumer loans and open end consumer loans are charged off or written down to the fair value of collateral on or before becoming 120 and 180 days past due, respectively. A nonaccrual loan may not be considered impaired if it is expected that the delay in payment is minimal.

A loan is considered impaired when, in management's judgment, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines when loans become impaired through its normal loan administration and review functions. Loans identified as substandard or doubtful as a result of the loan review process are potentially impaired loans. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired, provided that management expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage, overdraft protection, home equity line, and consumer installment loans for impairment disclosures.

#### ***Allowance for Loan Losses***

The allowance for loan losses is established for estimated loan charge-offs through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes that the collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

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The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses.

### ***Rate Lock Commitments***

The Company enters into rate lock commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding. Rate lock commitments on mortgage loans that are originated for resale are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 10 to 60 days. For such rate lock commitments, the Company is protected from changes in interest rates through the use of best efforts forward delivery commitments, whereby an investor commits to buy the loan at the time the borrower commits to an interest rate with the intent that the investor has assumed the interest rate risk on the loan. As a result, the Company is not exposed to losses nor will it realize gains or losses related to its rate lock commitments due to changes in interest rates. Operational processes may create timing differences where the final delivery of a forward contract to purchase a loan may occur in the reporting period immediately following the period when the loan was originally closed. The market values of rate lock commitments and best efforts contracts are not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded.

### ***Other Real Estate Owned ("OREO")***

Real estate acquired in satisfaction of a loan and in-substance foreclosures are reported in other assets. In-substance foreclosures are properties in which the borrower has little or no equity in the collateral. Properties acquired by foreclosure or deed in lieu of foreclosure and in-substance foreclosures are transferred to OREO and recorded at the lower of the outstanding loan balance at the time of acquisition or the estimated market value. Market value is determined on the basis of the properties being disposed of in the normal course of business and not on a liquidation or distress basis. Loan losses arising from the acquisition of such properties are charged against the allowance for loan losses. Gains or losses arising from the sale of OREO are reflected in current operations.

***Transfers of Financial Assets***

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

***Premises and Equipment***

Land is carried at cost. Office equipment, furnishings, and buildings are carried at cost less accumulated depreciation computed principally on the declining-balance and straight-line methods over the estimated useful lives of the assets. Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases including lease renewals only when the Company is reasonably assured of the aggregate term of the lease. Additions to premises and equipment and major replacements are added to the accounts at cost. Maintenance and repairs and minor replacements are charged to expense when incurred. Gains and losses on routine dispositions are reflected in current operations.

***Intangible Assets***

Intangible assets consist primarily of goodwill and core deposit premium costs that result from the acquisition of other companies or branches from other banks. Core deposit premium costs represent the value of long-term deposit relationships acquired in these transactions. Goodwill represents the excess of the purchase price over the sum of the fair values of the tangible and identifiable intangible assets acquired less the fair value of the liabilities assumed. Core deposit premium costs are being amortized over the estimated useful lives of the deposit accounts acquired on a method that reasonably approximates the anticipated benefit stream from the accounts. Goodwill is not amortized, and is reviewed annually for potential impairment. The impairment tests are performed at a reporting unit level annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. To the extent that impairment exists, write-downs to realizable value are recorded.

***Advertising Costs***

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. The Company may establish accruals for anticipated advertising expenses within the course of a current year.

***Comprehensive Income***

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as (1) unrealized gains and losses on available-for-sale securities and (2) net change in unrecognized amounts related to pension and post-retirement benefits, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (see Note 13).

***Employee Benefit Plans***

A summary of the Company's various employee benefit plans follows:

**Pension Plan** The Company and its subsidiaries have a non-contributory defined benefit pension plan covering all employees hired on or before December 31, 2005, who have attained age 21, and who

have completed one year of eligible service. The Company's funding policy is based principally, among other considerations, on contributing an amount necessary to satisfy the Internal Revenue Service's funding standards.

**Employee Savings Plan** The Company and its subsidiaries have an employee savings plan, including Internal Revenue Code Section 401(k) provisions. Electing employees are eligible to participate after attaining age 21 and completing one year of eligible service. Plan participants elect to contribute portions of their annual base compensation as a before tax contribution. In 2005 and prior years, the Company matched 50% of these contributions up to a 6% employee contribution. Employer contributions may be made from current or accumulated net profits. Participants may elect to contribute an additional 1% to 6% (or higher, in certain cases) of annual base compensation as a before tax contribution with no employer matching contribution. In 2006, the Company continued its previous matching policy for employees hired before 2006 and who were age 45 and higher with five or more years of service. The Company has changed some of the provisions in its defined benefit plan and as a result of reduced benefits for certain employees, will match 100% of contributions up to 6% of salary of current employees under age 45 or with less than five years of service. Additionally, any employee hired in 2006 or thereafter will not participate in the defined benefit pension plan, but will receive the Company's 100% matching of their 401(k) plan contribution, up to 6% of salary.

**Retiree Medical Plan** Post-retirement health and life insurance benefits are provided to eligible employees, such benefits being limited to those employees of the Company eligible for early retirement under the pension plan on or before December 31, 1993, and former employees who are currently receiving benefits. The plan was unfunded at December 31, 2007, and the liability for future benefits has been recorded in the consolidated financial statements.

**Employee Stock Purchase Plan** The Company has registered 363,825 shares of common stock in connection with the establishment of an Employee Stock Purchase Plan. The Plan, which is effective for the seven-year period commencing July 1, 2002, is available to all employees who have attained age 21 and completed six months of service. The price at which common stock may be purchased for each quarterly option period is the lesser of 85% of the common stock's fair value on either the first or last day of the quarter.

### ***Income Taxes***

Income taxes are provided for the tax effects of the transactions reported in the accompanying consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of available-for-sale securities, allowance for loan losses, accumulated depreciation, net operating loss carryforwards, accretion income, deferred compensation, intangible assets, and pension plan and post-retirement benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files a consolidated federal income tax return with its subsidiaries.

### ***Share-Based Compensation Plans***

Compensation cost is recognized for stock options and restricted stock awards issued to employees. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used as the fair value of restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting

period for stock option awards and as the restriction period for restricted stock awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

### ***Earnings Per Share***

Basic earnings per share represents income available to shareholders divided by the weighted-average number of shares outstanding during the year. Diluted earnings per share reflects additional shares that would have been outstanding if dilutive potential shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method. Under the treasury stock method, the number of incremental shares is determined by assuming the issuance of stock for the outstanding stock options, reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price for the year of the Company's stock.

### ***Reclassification***

Certain amounts previously reported have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income.

### ***Recent Accounting Pronouncements***

In December 2007, the Accounting Standards Board ("FASB") issued Statement No. 141(R), *Business Combinations*. The statement will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how the Company will account for business combinations under this Statement include: the acquisition date will be date the acquirer obtains control; all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition-related restructuring costs that do not meet the criteria in Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities*, will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, Statement 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward.

The Company will be required to prospectively apply Statement 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of Statement 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. The Company is currently evaluating the effects the Statement will have on the financial condition, results of operations, liquidity, and the disclosures that will be presented in the consolidated financial statements.

In June 2007, the FASB ratified the consensus reached in EITF 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 applies to entities that have share-

based payment arrangements that entitle employees to receive dividends or dividend equivalents on equity-classified nonvested shares when those dividends or dividend equivalents are charged to retained earnings and result in an income tax deduction. Entities that have share-based payment arrangements that fall within the scope of EITF 06-11 will be required to increase capital surplus for any realized income tax benefit associated with dividends or dividend equivalents paid to employees for equity-classified nonvested equity awards. Any increase recorded to capital surplus is required to be included in an entity's pool of excess tax benefits that are available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 becomes effective in fiscal years beginning after December 15, 2007. The effect of adoption is not expected to have a material effect on the Company's financial condition, results of operations, or liquidity.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits an entity to elect to measure certain financial instruments at fair value with changes in fair value recognized in the income statement each period. The fair value option may be elected for an individual item without electing it for other identical items. Upfront costs and fees related to such items must also be recognized in current earnings as incurred. Early adoption was permitted subject to certain conditions. The statement will be effective as of the start of the first fiscal year beginning after November 15, 2007 and may not be applied retrospectively to prior fiscal years. The Company does not expect the statement to have a material effect on its financial statements when the statement becomes effective beginning on January 1, 2008.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. The adoption of FIN 48 had no significant impact on the Company's financial statements. It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of January 1, 2007, there were no interest and penalties. The Company and its subsidiaries file a consolidated United States federal income tax return, as well as income tax returns for its subsidiaries in the states of South Carolina and North Carolina. The Company's filed income tax returns are no longer subject to examination by taxing authorities for years before 2003.

## **Note 2 Mergers and Acquisitions**

On November 30, 2007, the Company acquired in a merger 100% of the outstanding stock of TSB Financial Corporation ("TSB"), including its wholly-owned subsidiary, The Scottish Bank, headquartered in Charlotte, NC. The Scottish Bank was immediately converted to The Scottish Bank, National Association with the approval of the Office of the Comptroller of the Currency. This acquisition represents the Company's first initiative to expand outside the state of South Carolina. The Scottish Bank has four banking offices in the Charlotte MSA and one loan production office in Cornelius, NC (Lake Norman).

Under the terms of the agreement, TSB shareholders received aggregate consideration of 939,372 shares of SCBT common stock and approximately \$10.0 million in cash, including the cash-out value of TSB's stock options. The stock portion of the consideration was based upon a fixed exchange ratio of .993 shares of the Company's common stock for each of the outstanding shares of TSB common stock, which as of November 30, 2007 totaled 1,162,018 shares. Based upon the Company's five-day average closing stock price of \$36.224, which was the average closing price of the Company's stock for two days before and two days after the definitive agreement of August 30, 2007, the transaction was valued at approximately \$44.0 million in the aggregate.

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The transaction resulted in goodwill of \$29.4 million and core deposit intangible of \$982,000. None of the goodwill is deductible for tax purposes and will be subject to impairment testing at least annually. The core deposit intangible is being amortized equally over a period of ten years.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition of TSB:

(Dollars in thousands)

| <b>Assets acquired:</b>          |                  |
|----------------------------------|------------------|
| Cash and cash equivalents        | \$ (2,462)       |
| Investment securities            | 30,501           |
| Loans, net                       | 154,357          |
| Premises and equipment, net      | 2,026            |
| Core deposit intangible          | 982              |
| Goodwill                         | 29,396           |
| Other assets                     | 7,405            |
|                                  | <hr/>            |
| <b>Total assets acquired</b>     | <b>222,205</b>   |
|                                  | <hr/>            |
| <b>Liabilities assumed</b>       |                  |
| Deposits                         | 168,799          |
| Other borrowings                 | 17,553           |
| Other liabilities                | 1,825            |
|                                  | <hr/>            |
| <b>Total liabilities assumed</b> | <b>188,177</b>   |
|                                  | <hr/>            |
| <b>Net assets acquired</b>       | <b>\$ 34,028</b> |
|                                  | <hr/>            |

The following table presents selected pro forma information of the Company as if the TSB acquisition had occurred on January 1, 2006.

|                                               | <b>Years Ended December 31,</b> |             |
|-----------------------------------------------|---------------------------------|-------------|
|                                               | <b>2007</b>                     | <b>2006</b> |
|                                               | <hr/>                           | <hr/>       |
| (Dollars in thousands, except per share data) |                                 |             |
| Net interest income                           | \$ 86,723                       | \$ 79,995   |
| Net income                                    | 22,935                          | 21,203      |
| Basic earnings per share                      | \$ 2.26                         | \$ 2.11     |
| Diluted earnings per share                    | \$ 2.26                         | \$ 2.09     |

A reconciliation of the accrued merger costs at December 31, 2007, related to the acquisition of TSB is presented below:

|                               | <b>Beginning<br/>Balance</b> | <b>Purchase<br/>Adjustments</b> | <b>Amounts<br/>Charged to<br/>Earnings</b> | <b>Amounts Paid</b> | <b>Ending<br/>Balance</b> |
|-------------------------------|------------------------------|---------------------------------|--------------------------------------------|---------------------|---------------------------|
|                               | <hr/>                        | <hr/>                           | <hr/>                                      | <hr/>               | <hr/>                     |
| Severance and related costs   | \$                           | \$ 632                          | \$ 378                                     | \$ (519)            | \$ 491                    |
| Professional fees             |                              | 1,104                           | 18                                         | (442)               | 680                       |
| Contract terminations costs   |                              |                                 | 314                                        | (209)               | 105                       |
| Other merger-related expenses |                              | 50                              | 101                                        | (26)                | 125                       |
|                               | <hr/>                        | <hr/>                           | <hr/>                                      | <hr/>               | <hr/>                     |
| <b>Totals</b>                 | <b>\$</b>                    | <b>\$ 1,786</b>                 | <b>\$ 811</b>                              | <b>\$ (1,196)</b>   | <b>\$ 1,401</b>           |
|                               | <hr/>                        | <hr/>                           | <hr/>                                      | <hr/>               | <hr/>                     |

The accrued merger costs reflected above are expected to be paid out during 2008. Severance and related costs include change in control payments. Professional fees primarily include investment banker fees, accountant fees, legal fees and transfer agent fees. Contract termination costs are the result of the early termination of service contracts with various service providers related to the acquisition of TSB.





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Assets and liabilities of acquired entities are recorded at estimated fair values as of respective acquisition dates, and the results of acquired entity operations are included in income from those dates. The fair value of acquired assets and liabilities, including identifiable intangible assets, are finalized as quickly as possible following an acquisition. The TSB purchase price allocation is substantially complete; however, its valuations may be subject to revisions as additional information becomes available. Purchase accounting adjustments determinable within 12 months of acquisition date result in adjustments to goodwill.

### Note 3 Restriction on Cash and Due from Banks

The Banks are required to maintain a specified average amount of reserve funds in cash or on deposit with the Federal Reserve Bank. The average amount of such reserve funds at December 31, 2007 and 2006 was approximately \$2.5 million.

At December 31, 2007, the Company and its subsidiaries had due from bank balances in excess of federally insured limits of approximately \$6.9 million. The risk associated with this excess is limited due to the soundness of the financial institutions with which the funds are deposited.

### Note 4 Investment Securities

The following is the amortized cost and fair value of investment securities held to maturity:

| (Dollars in thousands)    | Amortized Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
|---------------------------|-------------------|------------------------------|-------------------------------|-------------------|
|                           | <u>          </u> | <u>          </u>            | <u>          </u>             | <u>          </u> |
| <b>December 31, 2007:</b> |                   |                              |                               |                   |
| State and municipal       | \$ 21,457         | \$ 114                       | \$ (356)                      | \$ 21,215         |
|                           | <u>          </u> | <u>          </u>            | <u>          </u>             | <u>          </u> |
| <b>December 31, 2006:</b> |                   |                              |                               |                   |
| State and municipal       | \$ 18,112         | \$ 165                       | \$ (6)                        | \$ 18,271         |
|                           | <u>          </u> | <u>          </u>            | <u>          </u>             | <u>          </u> |

The fair values of obligations of states and political subdivisions are established with the assistance of an independent pricing service. The values are based on data, which often reflect transactions of relatively small size and are not necessarily indicative of the value of the securities when traded in large volumes.

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The following is the amortized cost and fair value of investment securities available for sale:

| (Dollars in thousands)            | Amortized Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
|-----------------------------------|-------------------|------------------------------|-------------------------------|-------------------|
| <b>December 31, 2007:</b>         |                   |                              |                               |                   |
| Government-sponsored enterprises* | \$ 71,508         | \$ 496                       | \$ (52)                       | \$ 71,952         |
| State and municipal               | 10,242            | 80                           | (89)                          | 10,233            |
| Mortgage-backed                   | 117,482           | 955                          | (232)                         | 118,205           |
| Corporate bonds                   | 14,258            | 7                            | (19)                          | 14,246            |
| Corporate stocks                  | 9,101             | 63                           | (220)                         | 8,944             |
|                                   | <u>\$ 222,591</u> | <u>\$ 1,601</u>              | <u>\$ (612)</u>               | <u>\$ 223,580</u> |
| <b>December 31, 2006:</b>         |                   |                              |                               |                   |
| Government-sponsored enterprises* | \$ 67,791         | \$ 52                        | \$ (395)                      | \$ 67,448         |
| Mortgage-backed                   | 94,894            | 197                          | (1,853)                       | 93,238            |
| Corporate bonds                   | 14,260            | 107                          | (9)                           | 14,358            |
| Corporate stocks                  | 6,991             | 120                          | (42)                          | 7,069             |
|                                   | <u>\$ 183,936</u> | <u>\$ 476</u>                | <u>\$ (2,299)</u>             | <u>\$ 182,113</u> |

\*

Government-sponsored enterprises are comprised of securities offered by Federal Home Loan Mortgage Corporation ("FHLMC") or Freddie Mac, Federal National Mortgage Association ("FNMA") or Fannie Mae, Federal Home Loan Bank ("FHLB"), and Federal Farm Credit Banks ("FFCB").

The following is the amortized cost and fair value of other investment securities:

| (Dollars in thousands)                    | Amortized Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value       |
|-------------------------------------------|------------------|------------------------------|-------------------------------|------------------|
| <b>December 31, 2007:</b>                 |                  |                              |                               |                  |
| Federal Reserve Bank stock                | \$ 3,259         | \$                           | \$                            | \$ 3,259         |
| Federal Home Loan Bank stock              | 8,595            |                              |                               | 8,595            |
| Banker's Bank stock                       | 286              |                              |                               | 286              |
| Investment in unconsolidated subsidiaries | 1,332            |                              |                               | 1,332            |
|                                           | <u>\$ 13,472</u> | <u>\$</u>                    | <u>\$</u>                     | <u>\$ 13,472</u> |
| <b>December 31, 2006:</b>                 |                  |                              |                               |                  |
| Federal Reserve Bank stock                | \$ 2,911         | \$                           | \$                            | \$ 2,911         |
| Federal Home Loan Bank stock              | 6,016            |                              |                               | 6,016            |
| Investment in unconsolidated subsidiaries | 1,239            |                              |                               | 1,239            |
|                                           | <u>\$ 10,166</u> | <u>\$</u>                    | <u>\$</u>                     | <u>\$ 10,166</u> |

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The amortized cost and fair value of debt securities at December 31, 2007 by contractual maturity are detailed below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

| (Dollars in thousands)                 | Securities<br>Held to Maturity |                  | Securities<br>Available for Sale |                   |
|----------------------------------------|--------------------------------|------------------|----------------------------------|-------------------|
|                                        | Amortized Cost                 | Fair Value       | Amortized Cost                   | Fair Value        |
| Due in one year or less                | \$ 3,479                       | \$ 3,486         | \$ 32,732                        | \$ 32,706         |
| Due after one year through five years  | 7,040                          | 7,090            | 108,328                          | 108,842           |
| Due after five years through ten years | 5,647                          | 5,476            | 58,054                           | 58,469            |
| Due after ten years                    | 5,291                          | 5,163            | 23,477                           | 23,563            |
|                                        | <b>\$ 21,457</b>               | <b>\$ 21,215</b> | <b>\$ 222,591</b>                | <b>\$ 223,580</b> |

There were no sales or transfers of held-to-maturity securities during 2007, 2006 or 2005. The following table summarizes information with respect to sale of available-for-sale securities:

| (Dollars in thousands) | Years Ended December 31, |           |          |
|------------------------|--------------------------|-----------|----------|
|                        | 2007                     | 2006      | 2005     |
| Sale proceeds          | \$ 25,353                | \$ 10,371 | \$ 6,998 |
| Gross realized gains   | \$ 42                    | \$        | \$       |
| Gross realized losses  | (502)                    | (330)     | (202)    |
| Net realized loss      | \$ (460)                 | \$ (330)  | \$ (202) |

The Company had 98 securities with gross unrealized losses at December 31, 2007. Information pertaining to securities with gross unrealized losses at December 31, 2007 and 2006, aggregated by

investment category and length of time that individual securities have been in a continuous loss position follows:

| (Dollars in thousands)               | Less Than Twelve Months |            | Twelve Months or More   |            |
|--------------------------------------|-------------------------|------------|-------------------------|------------|
|                                      | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| <b>December 31, 2007:</b>            |                         |            |                         |            |
| <b>Securities Held to Maturity</b>   |                         |            |                         |            |
| State and municipal                  | \$ 353                  | \$ 10,383  | \$ 3                    | \$ 437     |
|                                      | \$ 353                  | \$ 10,383  | \$ 3                    | \$ 437     |
| <b>Securities Available for Sale</b> |                         |            |                         |            |
| Government-sponsored enterprises     | \$ 49                   | \$ 15,480  | \$ 3                    | \$ 4,997   |
| State and municipal                  | 89                      | 5,314      |                         |            |
| Mortgage-backed                      | 32                      | 7,545      | 200                     | 21,178     |
| Corporate bonds                      | 239                     | 8,742      |                         |            |
|                                      | \$ 409                  | \$ 37,081  | \$ 203                  | \$ 26,175  |
| <b>December 31, 2006:</b>            |                         |            |                         |            |
| <b>Securities Held to Maturity</b>   |                         |            |                         |            |
| State and municipal                  | \$                      | \$         | \$ 6                    | \$ 559     |
|                                      | \$                      | \$         | \$ 6                    | \$ 559     |
| <b>Securities Available for Sale</b> |                         |            |                         |            |
| Government-sponsored enterprises     | \$ 54                   | \$ 22,868  | \$ 341                  | \$ 26,625  |
| Mortgage-backed                      | 114                     | 10,442     | 1,739                   | 62,701     |
| Corporate bonds                      | 9                       | 3,951      |                         |            |
| Corporate stocks                     | 42                      | 3,958      |                         |            |
|                                      | \$ 219                  | \$ 41,219  | \$ 2,080                | \$ 89,326  |

At December 31, 2007 and 2006, debt securities with unrealized losses have depreciated only 1.3% and 1.7%, respectively, from their amortized cost basis. The unrealized losses in 2007 relate principally to mortgage-backed securities and corporate bonds whose spreads have widened to U.S. Treasury securities in the midst of the current economic and liquidity environments. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Management evaluates securities for other-than-temporary impairment at least on a monthly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the anticipated outlook for changes in the general level of interest rates, and (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2007 and 2006, investment securities with a carrying value of \$88.9 million and \$76.9 million, respectively, were pledged to secure public deposits and for other purposes required and permitted by law. At December 31, 2007 and 2006, the carrying amount of the securities pledged to secure repurchase agreements was \$97.3 million and \$96.0 million, respectively.



**Note 5 Loans and Allowance for Loan Losses**

The following is a summary of loans by category at December 31:

| (Dollars in thousands)          | 2007                | 2006                |
|---------------------------------|---------------------|---------------------|
| Real estate:                    |                     |                     |
| Commercial                      | \$ 1,075,423        | \$ 835,892          |
| Consumer                        | 459,022             | 434,957             |
| Commercial                      | 245,069             | 190,635             |
| Firstline                       | 164,104             | 144,910             |
| Consumer                        | 117,650             | 130,596             |
| Other loans                     | 22,024              | 23,870              |
|                                 | <b>2,083,292</b>    | <b>1,760,860</b>    |
| Less, unearned income           | (245)               | (30)                |
| Less, allowance for loan losses | (26,570)            | (22,668)            |
|                                 | <b>\$ 2,056,477</b> | <b>\$ 1,738,162</b> |

At December 31, 2007, net loans included a \$1.7 million unamortized discount on loans acquired from TSB.

Changes in the allowance for loan losses for the three years ended December 31 were as follows:

| (Dollars in thousands)                      | 2007             | 2006             | 2005             |
|---------------------------------------------|------------------|------------------|------------------|
| Balance at beginning of period              | \$ 22,668        | \$ 20,025        | \$ 14,470        |
| Loans charged-off                           | (3,325)          | (3,438)          | (1,850)          |
| Recoveries of loans previously charged-off  | 1,008            | 813              | 383              |
|                                             | <b>20,351</b>    | <b>17,400</b>    | <b>13,003</b>    |
| Balance before provision for loan losses    | 20,351           | 17,400           | 13,003           |
| Provision for loan losses                   | 4,384            | 5,268            | 4,907            |
| Allowance acquired in business combinations | 1,835            |                  | 2,115            |
|                                             | <b>\$ 26,570</b> | <b>\$ 22,668</b> | <b>\$ 20,025</b> |

The following is a summary of information pertaining to impaired and nonaccrual loans at December 31:

| (Dollars in thousands)                                      | 2007            | 2006            |
|-------------------------------------------------------------|-----------------|-----------------|
| Impaired loans without a valuation allowance                | \$ 4,875        | \$ 3,499        |
| Impaired loans with a valuation allowance                   | 582             | 303             |
|                                                             | <b>\$ 5,457</b> | <b>\$ 3,802</b> |
| Valuation allowance related to impaired loans               | \$ 127          | \$ 83           |
| Average of impaired loans during the year                   | \$ 4,629        | \$ 3,791        |
| Total nonaccrual loans                                      | \$ 5,353        | \$ 3,567        |
| Total loans past due ninety days or more and still accruing | \$ 985          | \$ 1,039        |

Included in the balance sheet under the caption "Other assets" are certain real properties that were acquired as a result of completed foreclosure proceedings and other assets repossessed (such as automobiles, boats, ATVs, etc.). Also included in the caption are amounts reclassified as in-substance foreclosures. Other real estate owned totaled \$490,000 and \$597,000 at December 31, 2007 and 2006, respectively.

**Note 6 Premises and Equipment**

Premises and equipment consisted of the following at December 31:

| (Dollars in thousands)               | Useful Life | Years Ended December 31, |                  |
|--------------------------------------|-------------|--------------------------|------------------|
|                                      |             | 2007                     | 2006             |
| Land                                 |             | \$ 13,334                | \$ 12,163        |
| Buildings and leasehold improvements | 15-40 years | 41,982                   | 36,803           |
| Equipment and furnishings            | 3-10 years  | 22,202                   | 19,042           |
| Construction in process              |             | 2,567                    | 1,545            |
| <b>Total</b>                         |             | <b>80,085</b>            | <b>69,553</b>    |
| Less, accumulated depreciation       |             | (24,631)                 | (20,649)         |
|                                      |             | <b>\$ 55,454</b>         | <b>\$ 48,904</b> |

Depreciation expense charged to operations was \$3.4 million, \$3.0 million, and \$2.5 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Computer software with an original cost of \$2.7 million is being amortized using the straight-line method over thirty-six months. Amortization expense totaled \$361,000, \$299,000, and \$261,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

**Note 7 Goodwill and Other Intangible Assets**

In accordance with SFAS No. 142, the Company ceased amortization of goodwill as of January 1, 2002. The Company has determined that there has been no impairment of goodwill, based on analysis through December 31, 2007. The changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2006 are as follows:

| (Dollars in thousands)     |           |
|----------------------------|-----------|
| Balance, January 1, 2006   | \$ 32,220 |
| Sun Bancshares acquisition | 93        |
| Balance, December 31, 2006 | 32,313    |
| TSB acquisition            | 29,396    |
| Balance, December 31, 2007 | \$ 61,709 |

The Company's other intangible assets, consisting primarily of core deposit premium costs, are included in "Other assets". During 2007, the Company added \$982,000 in core deposit premium related to the TSB acquisition. The following is a summary of gross carrying amounts and accumulated amortization of core deposit premium costs at December 31:

| (Dollars in thousands)   | 2007            | 2006            |
|--------------------------|-----------------|-----------------|
| Gross carrying amount    | \$ 8,803        | \$ 7,821        |
| Accumulated amortization | (4,926)         | (4,455)         |
|                          | <b>\$ 3,877</b> | <b>\$ 3,366</b> |

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Amortization expense totaled \$472,000, \$482,000, and \$305,000 for the years ended December 31, 2007, 2006, and 2005, respectively. Estimated amortization expense for core deposit premium costs for each of the next five years is as follows:

(Dollars in thousands)

| Years ending December 31: |          |
|---------------------------|----------|
| 2008                      | \$ 544   |
| 2009                      | 526      |
| 2010                      | 508      |
| 2011                      | 490      |
| 2012                      | 461      |
|                           | <hr/>    |
|                           | \$ 2,529 |
|                           | <hr/>    |

### Note 8 Deposits

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2007 and 2006 was \$427.2 million and \$371.5 million, respectively.

At December 31, 2007, the scheduled maturities of time deposits of all denominations are as follows:

(Dollars in thousands)

| Years ending December 31: |            |
|---------------------------|------------|
| 2008                      | \$ 847,423 |
| 2009                      | 31,689     |
| 2010                      | 4,555      |
| 2011                      | 1,169      |
| 2012                      | 955        |
| Thereafter                | 539        |
|                           | <hr/>      |
|                           | \$ 886,330 |
|                           | <hr/>      |



**Note 9 Federal Funds Purchased and Securities Sold Under Agreements to Repurchase**

Federal funds purchased and securities sold under agreements to repurchase generally mature within one to three days from the transaction date, but may have maturities as long as nine months. Certain of the borrowings have no defined maturity date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company monitors the fair value of the underlying securities on a daily basis. Some securities underlying these agreements include arrangements to resell securities from broker-dealers approved by the Company. Information concerning federal funds purchased and securities sold under agreements to repurchase are below:

|                                                                         | December 31, |       |            |       |            |       |
|-------------------------------------------------------------------------|--------------|-------|------------|-------|------------|-------|
|                                                                         | 2007         |       | 2006       |       | 2005       |       |
|                                                                         | Amount       | Rate  | Amount     | Rate  | Amount     | Rate  |
| <b>(Dollars in thousands)</b>                                           |              |       |            |       |            |       |
| <b>At period-end:</b>                                                   |              |       |            |       |            |       |
| Federal funds purchased and securities sold under repurchase agreements | \$ 296,186   | 3.73% | \$ 203,105 | 4.46% | \$ 150,163 | 3.47% |
| <b>Average for the year:</b>                                            |              |       |            |       |            |       |
| Federal funds purchased and securities sold under repurchase agreements | \$ 208,516   | 4.40% | \$ 149,081 | 4.08% | \$ 123,352 | 2.46% |
| <b>Maximum month-end balance:</b>                                       |              |       |            |       |            |       |
| Federal funds purchased and securities sold under repurchase agreements | \$ 296,186   |       | \$ 203,105 |       | \$ 163,593 |       |

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**Note 10 Other Borrowings**

The Company's other borrowings were as follows as of December 31:

| (Dollars in thousands)                                                                                                                                                                                                                                                                                                                       | 2007       | 2006      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------|
| FHLB advances with various maturity dates (ranging from less than one to fifteen years), various contractual terms, and various repayment schedules with fixed rates of interest (net of discount of \$6 and \$84 in 2007 and 2006, respectively).                                                                                           | \$ 95,667  | \$ 47,677 |
| SCBT Capital Trust I junior subordinated debt with a variable interest rate equal to the three-month LIBOR rate (6.78% at December 31, 2007) plus a spread adjusted quarterly; guaranteed by the Company on a subordinated basis, matures in 30 years, and can be called by the issuer without penalty on or after June 30, 2010.            | 12,372     | 12,372    |
| SCBT Capital Trust II junior subordinated debt with a fixed interest rate of 6.37% for five years and thereafter at a rate equal to the three-month LIBOR rate plus a spread; guaranteed by the Company on a subordinated basis, matures in 30 years, and can be called by the issuer without penalty on or after June 30, 2010.             | 8,248      | 8,248     |
| SCBT Capital Trust III junior subordinated debt with a fixed interest rate of 5.92% for ten years and thereafter at a rate equal to the three-month LIBOR rate plus a spread; matures in 30 years, and can be called by the issuer without penalty on or after September 15, 2012.                                                           | 20,619     | 20,619    |
| TSB Statutory Trust I junior subordinated debt with a variable interest rate of three-month LIBOR plus 172 basis points and pays dividends quarterly; rate is subject to quarterly resets and was equal to 6.71% at December 31, 2007; matures on March 14, 2037, and can be called in five years (December 2011); net of discount of \$120. | 2,973      |           |
| Other                                                                                                                                                                                                                                                                                                                                        | 3,981      | 1,500     |
|                                                                                                                                                                                                                                                                                                                                              | \$ 143,860 | \$ 90,416 |

**FHLB Advances**

The Company has entered into borrowing agreements with the FHLB. Advances under these agreements are collateralized by stock in the FHLB, qualifying first and second mortgage residential loans, and commercial real estate loans under a blanket-floating lien.

Advances outstanding of \$26.5 million and \$3.0 million at December 31, 2007 will convert to a floating interest rate indexed to LIBOR when the index equals or exceeds 7.50% and 7.00%, respectively. There was a \$25.0 million variable rate advance outstanding at December 31, 2007, and there were no advances at variable rates as of December 31, 2006. Net eligible loans of the Company pledged to the FHLB for advances and letters of credit at December 31, 2007, were approximately \$314.9 million. With the haircut reduction, total borrowing capacity at FHLB was approximately \$196.5 million. After accounting for outstanding advances totaling \$95.6 million and letters of credit totaling \$36.7 million, the Company had unused net credit available in the amount of approximately \$64.2 million at December 31, 2007.

The maximum FHLB advances outstanding at any month-end for the years ended December 31, 2007 and 2006 was \$97.7 million and \$101.0 million, respectively. The average amount outstanding for the years ended December 31, 2007 and 2006 was approximately \$66.2 million and \$92.7 million,

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respectively. The weighted-average interest rate during the years ended December 31, 2007 and 2006 was 4.61% and 5.10%, respectively. The weighted-average interest rate at December 31, 2007 and 2006 was 4.55% and 5.05%, respectively.

**Junior Subordinated Debt**

The obligations of the Company with respect to the issuance of the capital securities constitute a full and unconditional guarantee by the Company of the Trusts' obligations with respect to the capital securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related capital securities.

As of December 31, 2007, the sole asset of the Trusts is an aggregate of \$44.2 of the Company's junior subordinated debt securities with like maturities and like interest rates to the trust preferred securities.

For regulatory purposes, the junior subordinated debt securities may be classified as Tier 1 Capital. The trust preferred securities represent a minority investment in an unconsolidated subsidiary, which is currently included in Tier 1 Capital so long as it does not exceed 25% of total Tier 1 Capital.

Principal maturities of other borrowings are summarized below:

| (Dollars in thousands)   | <b>FHLB<br/>Borrowings</b> | <b>Junior<br/>Subordinated Debt</b> | <b>Other</b>    |
|--------------------------|----------------------------|-------------------------------------|-----------------|
| Years Ended December 31, |                            |                                     |                 |
| 2008                     | \$ 43,080                  |                                     | \$ 3,981        |
| 2009                     | 17,973                     |                                     |                 |
| 2010                     |                            |                                     |                 |
| 2011                     | 32,584                     |                                     |                 |
| 2012                     |                            |                                     |                 |
| Thereafter               | 2,030                      | 44,212                              |                 |
|                          | <b>\$ 95,667</b>           | <b>\$ 44,212</b>                    | <b>\$ 3,981</b> |

**Note 11 Income Taxes**

The provision for income taxes consists of the following:

| (Dollars in thousands)     | Years Ended December 31, |           |          |
|----------------------------|--------------------------|-----------|----------|
|                            | 2007                     | 2006      | 2005     |
| <b>Current:</b>            |                          |           |          |
| Federal                    | \$ 10,368                | \$ 10,078 | \$ 8,634 |
| State                      | 1,022                    | 920       | 780      |
| Total current tax expense  | <b>11,390</b>            | 10,998    | 9,414    |
| <b>Deferred:</b>           |                          |           |          |
| Federal                    | (705)                    | (714)     | (1,539)  |
| State                      |                          |           | (52)     |
| Total deferred tax benefit | <b>(705)</b>             | (714)     | (1,591)  |
| Provision for income taxes | <b>\$ 10,685</b>         | \$ 10,284 | \$ 7,823 |



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Temporary differences in the recognition of revenue and expense for tax and financial reporting purposes resulted in net deferred income tax expense (benefit) as follows:

| (Dollars in thousands)                    | Years Ended December 31, |          |            |
|-------------------------------------------|--------------------------|----------|------------|
|                                           | 2007                     | 2006     | 2005       |
| Provision for loan losses                 | \$ (877)                 | \$ (951) | \$ (569)   |
| Net operating loss carryforwards          | 300                      | 568      | (1,189)    |
| Pension cost and post-retirement benefits | 46                       | 79       | 131        |
| Intangible assets                         | 94                       | (139)    | 429        |
| Depreciation                              | (4)                      | (146)    | (143)      |
| Share-based compensation                  | (120)                    | (180)    |            |
| Deferred compensation                     | (110)                    | (4)      | (137)      |
| Other                                     | (34)                     | 59       | (113)      |
|                                           | \$ (705)                 | \$ (714) | \$ (1,591) |

The provision for income taxes differs from that computed by applying the federal statutory income tax rate of 35% to income before provision for income taxes, as indicated in the following analysis:

| (Dollars in thousands)                          | Years Ended December 31, |           |          |
|-------------------------------------------------|--------------------------|-----------|----------|
|                                                 | 2007                     | 2006      | 2005     |
| Income taxes at federal statutory rate          | \$ 11,288                | \$ 10,531 | \$ 8,567 |
| Increase (reduction) of taxes resulting from:   |                          |           |          |
| State income taxes, net of federal tax benefit  | 673                      | 608       | 500      |
| Tax-exempt interest                             | (439)                    | (432)     | (489)    |
| Income tax credits                              | (324)                    | (324)     | (354)    |
| Utilization of net operating loss carryforwards |                          |           | (266)    |
| Dividends received deduction                    | (204)                    | (183)     | (116)    |
| Other, net                                      | (309)                    | 84        | (19)     |
|                                                 | \$ 10,685                | \$ 10,284 | \$ 7,823 |

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The components of the net deferred tax asset, included in other assets at December 31 are as follows:

| (Dollars in thousands)                                              | 2007            | 2006            |
|---------------------------------------------------------------------|-----------------|-----------------|
| Allowance for loan losses                                           | \$ 9,238        | \$ 7,935        |
| Net operating loss carryforwards                                    | 933             | 1,037           |
| Fair value measurements                                             | 725             |                 |
| Deferred compensation                                               | 501             | 391             |
| Share-based compensation                                            | 300             | 180             |
| Pension and post-retirement benefits                                | 366             | 795             |
| Unrealized losses on investment securities available for sale (AFS) |                 | 615             |
| Other                                                               | 116             | 5               |
| <b>Total deferred tax assets</b>                                    | <b>12,179</b>   | <b>10,958</b>   |
| Depreciation                                                        | 1,420           | 1,414           |
| Unrealized gains on investment securities AFS                       | 390             |                 |
| Intangible assets                                                   | 335             | 139             |
| Other                                                               | 280             | 164             |
| <b>Total deferred tax liabilities</b>                               | <b>2,425</b>    | <b>1,717</b>    |
| <b>Net deferred tax asset before valuation allowance</b>            | <b>9,754</b>    | <b>9,241</b>    |
| Less, valuation allowance                                           | (613)           | (418)           |
| <b>Net deferred tax asset</b>                                       | <b>\$ 9,141</b> | <b>\$ 8,823</b> |

At December 31, 2007, the Company had operating loss carryforwards for federal and state income tax purposes of approximately \$916,000 and \$12.3 million, respectively, available to offset future taxable income. The carryforwards expire in varying amounts through 2022. The valuation allowance is based on management's estimate of the ultimate realization of the deferred tax asset.

### Note 12 Other Expense

The following is a summary of the components of other noninterest expense:

| (Dollars in thousands)                 | Years Ended December 31, |                  |                  |
|----------------------------------------|--------------------------|------------------|------------------|
|                                        | 2007                     | 2006             | 2005             |
| Data and computer services             | 2,211                    | 1,805            | 1,384            |
| Business development and staff related | 2,097                    | 1,717            | 1,519            |
| Telephone and postage                  | 1,483                    | 1,738            | 1,559            |
| Other loan expense                     | 1,391                    | 1,014            | 1,363            |
| Regulatory fees                        | 1,303                    | 1,021            | 884              |
| Office supplies                        | 1,291                    | 1,464            | 1,443            |
| Bankcard services                      | 1,004                    | 1,026            | 738              |
| Retail products                        | 769                      | 594              | 449              |
| Property and sales tax                 | 765                      | 483              | 891              |
| Donations                              | 252                      | 375              | 582              |
| Insurance                              | 272                      | 327              | 277              |
| Other                                  | 2,009                    | 1,122            | 1,836            |
|                                        | <b>\$ 14,847</b>         | <b>\$ 12,686</b> | <b>\$ 12,925</b> |



**Note 13 Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

| (Dollars in thousands)                                                                              | Years Ended December 31, |                |                |
|-----------------------------------------------------------------------------------------------------|--------------------------|----------------|----------------|
|                                                                                                     | 2007                     | 2006           | 2005           |
| <b>Numerator:</b>                                                                                   |                          |                |                |
| Net income numerator for basic and diluted earnings per share                                       | \$ 21,565                | \$ 19,805      | \$ 16,655      |
| <b>Denominator:</b>                                                                                 |                          |                |                |
| Denominator for basic earnings per share weighted-average shares outstanding                        | 9,275                    | 9,126          | 8,539          |
| <b>Effect of dilutive securities:</b>                                                               |                          |                |                |
| Employee stock options                                                                              | 30                       | 92             | 83             |
| <b>Dilutive potential shares:</b>                                                                   |                          |                |                |
| Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions | 9,305                    | 9,218          | 8,622          |
| <b>Basic earnings per share</b>                                                                     | <b>\$ 2.33</b>           | <b>\$ 2.17</b> | <b>\$ 1.95</b> |
| <b>Diluted earnings per share</b>                                                                   | <b>\$ 2.32</b>           | <b>\$ 2.15</b> | <b>\$ 1.93</b> |

The earnings per share data above has been retroactively adjusted to give effect to a 5% common stock dividend paid to shareholders of record as of March 9, 2007.

The calculation of diluted earnings per share excludes outstanding stock options that have exercise prices greater than the average market price of the common shares for the year as follows:

| (Dollars in thousands)   | Years Ended December 31, |      |                     |
|--------------------------|--------------------------|------|---------------------|
|                          | 2007                     | 2006 | 2005                |
| Number of shares         | 38,104                   |      | 36,848              |
| Range of exercise prices | \$ 37.70 to \$39.74      |      | \$ 30.39 to \$31.97 |

**Note 14 Other Comprehensive Loss**

The components of other comprehensive loss and related tax effects related to unrealized holding gains (losses) on securities available for sale are as follows:

| (Dollars in thousands)                                                                     | Years Ended December 31, |               |                   |
|--------------------------------------------------------------------------------------------|--------------------------|---------------|-------------------|
|                                                                                            | 2007                     | 2006          | 2005              |
| Unrealized holding gains (losses) on securities available for sale arising during the year | \$ 2,254                 | \$ 319        | \$ (2,603)        |
| Less, reclassification adjustment for losses realized in net income                        | 460                      | 330           | 202               |
| <b>Net change in unrealized holding gains (losses)</b>                                     | <b>2,714</b>             | <b>649</b>    | <b>(2,401)</b>    |
| Tax effect                                                                                 | (1,031)                  | (247)         | 962               |
| <b>Net-of-tax amount</b>                                                                   | <b>\$ 1,683</b>          | <b>\$ 402</b> | <b>\$ (1,439)</b> |



Years Ended December 31,

\_\_\_\_\_  
\_\_\_\_\_  
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For the year ended December 31, 2007 and 2006, the Company recognized the following amounts in other comprehensive loss related to the adjustment of continuing to apply and initially applying FASB Statement No. 158:

| (Dollars in thousands)                    | Years Ended<br>December 31, |                   |
|-------------------------------------------|-----------------------------|-------------------|
|                                           | 2007                        | 2006              |
| <b>Retirement plan:</b>                   |                             |                   |
| Net gain (loss)                           | \$ 535                      | \$ (5,280)        |
| Prior service credit                      |                             | 1,243             |
| Amortization of prior service cost        | (173)                       |                   |
| Amortization of loss                      | 417                         |                   |
|                                           | 779                         | (4,037)           |
| <b>Post-retirement benefits:</b>          |                             |                   |
| Net (loss) gain                           | (86)                        | 10                |
| Transition obligation                     | 31                          | (190)             |
|                                           | (55)                        | (180)             |
| <b>Net change in unrecognized amounts</b> | <b>724</b>                  | <b>(4,217)</b>    |
| Tax effect                                | (377)                       | 1,602             |
|                                           | 347                         | (2,615)           |
| <b>Net-of-tax amount</b>                  | <b>\$ 347</b>               | <b>\$ (2,615)</b> |

### Note 15 Restrictions on Subsidiary Dividends, Loans, or Advances

The Company pays cash dividends to shareholders from its assets, which are mainly provided by dividends from the banking subsidiaries. However, certain restrictions exist regarding the ability of the subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. The approval of the Office of the Comptroller of the Currency ("OCC") is required to pay dividends in excess of the subsidiaries' net profits for the current year plus retained net profits (net profits less dividends paid) for the preceding two years, less any required transfers to surplus. As of December 31, 2007 and 2006, approximately \$35.9 million and \$37.3 million of the banks' retained earnings are available for distribution to the Company as dividends without prior regulatory approval. In addition, dividends paid by the banks to the Company would be prohibited if the effect thereof would cause the banks' capital to be reduced below applicable minimum capital requirements.

Under Federal Reserve regulation, the banks are also limited as to the amount they may lend to the Company. The maximum amount available for transfer from the banks to the Company in the form of loans or advances was approximately \$51.0 million and \$39.7 million at December 31, 2007 and 2006, respectively.

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**Note 16 Retirement Plans**

The following sets forth the pension plan's funded status and amounts recognized in the Company's accompanying consolidated financial statements at December 31:

| (Dollars in thousands)                         | 2007          | 2006          |
|------------------------------------------------|---------------|---------------|
| <b>Change in benefit obligation:</b>           |               |               |
| Benefit obligation at beginning of year        | \$ 16,264     | \$ 15,658     |
| Service cost                                   | 666           | 624           |
| Interest cost                                  | 923           | 822           |
| Plan amendment                                 |               | (1,154)       |
| Actuarial loss (gain)                          | (101)         | 659           |
| Benefits paid                                  | (354)         | (345)         |
|                                                | <b>17,398</b> | <b>16,264</b> |
| <b>Change in plan assets:</b>                  |               |               |
| Fair value of plan assets at beginning of year | 14,853        | 13,062        |
| Actual return on plan assets                   | 1,636         | 1,356         |
| Employer contribution                          | 780           | 780           |
| Benefits paid                                  | (354)         | (345)         |
|                                                | <b>16,915</b> | <b>14,853</b> |
| Funded status                                  | \$ (483)      | \$ (1,411)    |

Amounts recognized in accumulated other comprehensive income consist of:

| (Dollars in thousands)   | 2007     | 2006     |
|--------------------------|----------|----------|
| Net loss                 | \$ 4,328 | \$ 5,280 |
| Prior service credit     | (1,070)  | (1,243)  |
| Total amounts recognized | \$ 3,258 | \$ 4,037 |

The components of net periodic pension cost and other amounts recognized in other comprehensive income are as follows:

| (Dollars in thousands)             | Years Ended December 31, |              |                |
|------------------------------------|--------------------------|--------------|----------------|
|                                    | 2007                     | 2006         | 2005           |
| Service cost                       | \$ (666)                 | \$ (624)     | \$ (948)       |
| Interest cost                      | (923)                    | (822)        | (834)          |
| Expected return on plan assets     | 1,202                    | 1,106        | 957            |
| Amortization of prior service cost | 173                      | 173          | 38             |
| Recognized net actuarial loss      | (417)                    | (372)        | (359)          |
| Net periodic benefit cost          | <b>(631)</b>             | <b>(539)</b> | <b>(1,146)</b> |
| Net loss (gain)                    | 535                      | (5,280)      |                |
| Prior service credit               |                          | 1,243        |                |
| Amortization of prior service cost | (173)                    |              |                |
| Amortization of net loss           | 417                      |              |                |

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|                                                                              | <u>Years Ended December 31,</u> |                   |                   |
|------------------------------------------------------------------------------|---------------------------------|-------------------|-------------------|
| Total amount recognized in other comprehensive income                        | <u>779</u>                      | <u>(4,037)</u>    |                   |
| Total recognized in net periodic benefit cost and other comprehensive income | <u>\$ 148</u>                   | <u>\$ (4,576)</u> | <u>\$ (1,146)</u> |

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The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into periodic benefit cost over the next fiscal year are \$284,000 and \$173,000, respectively.

The following is information as of, October 31, the measurement date:

| (Dollars in thousands)         | 2007      | 2006      |
|--------------------------------|-----------|-----------|
| Projected benefit obligation   | \$ 17,398 | \$ 16,264 |
| Accumulated benefit obligation | 15,219    | 14,516    |
| Fair value of plan assets      | 16,785    | 14,853    |

The Company used a 6.00% discount rate and a 5.00% rate of compensation increase in its weighted-average assumptions used to determine benefit obligation at the October 31 measurement date. The weighted-average assumptions used to determine net periodic pension cost for the years ended December 31, 2007, 2006, and 2005 are as follows:

|                                          | Years Ended December 31, |       |       |
|------------------------------------------|--------------------------|-------|-------|
|                                          | 2007                     | 2006  | 2005  |
| Discount rate                            | 5.75%                    | 5.75% | 6.00% |
| Expected long-term return on plan assets | 8.00%                    | 8.00% | 8.00% |
| Rate of compensation increase            | 5.00%                    | 5.00% | 5.00% |

The expected rate of return for the pension plan represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considered long-term compound annualized returns of historical market data as well as historical actual returns on the Company's plan assets. Using this reference information, the Company developed forward-looking return expectations for each asset category and a weighted average expected long-term rate of return for a targeted portfolio allocated across these investment categories. The asset allocation of the Company's pension plan is targeted at 55% in U.S. equities, 10% in international equities, 30% in fixed income, and 5% in cash equivalents.

In developing the 8% long-term rate of return assumption for the pension plan, the Company utilized the following long-term rate of return and standard deviation assumptions:

| Asset Class                | Rate of Return Assumption | Standard Deviation Assumption |
|----------------------------|---------------------------|-------------------------------|
| High Grade Fixed Income    | 6.93%                     | 7.27%                         |
| High Yield Fixed Income    | 9.26%                     | 7.74%                         |
| International Fixed Income | 9.91%                     | 8.56%                         |
| Large Cap Equity           | 12.21%                    | 16.42%                        |
| Small Cap Equity           | 13.20%                    | 19.68%                        |
| Foreign Equity             | 11.06%                    | 18.81%                        |
| Inflation                  | 3.00%                     | n/a                           |

The portfolio's equity weighting is consistent with the long-term nature of the Plan's benefit obligation, and the expected annual return on the portfolio of 8%.

The policy, as established by the Retirement Committee, seeks to maximize return within reasonable and prudent levels of risk. The overall long-term objective of the Plan is to achieve a rate of return that exceeds the actuarially assumed rate of return of 8%. The investment policy is reviewed on

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a regular basis and revised when appropriate based on the legal or regulatory environment, market trends, or other fundamental factors.

Below is a summary of the Plan's year-end asset allocation:

| (Dollars in thousands)    | 2007             |                | 2006             |                |
|---------------------------|------------------|----------------|------------------|----------------|
|                           | Fair Value       | Percentage     | Fair Value       | Percentage     |
| Cash or cash equivalents  | \$ 297           | 1.75%          | \$ 3,455         | 23.26%         |
| Short-term fixed income   |                  |                | 2,136            | 14.38%         |
| Broad market fixed income | 4,927            | 29.13%         | 2,145            | 14.44%         |
| Domestic equity           | 9,716            | 57.44%         | 6,255            | 42.11%         |
| Foreign equity            | 1,975            | 11.68%         | 862              | 5.81%          |
|                           | <b>\$ 16,915</b> | <b>100.00%</b> | <b>\$ 14,853</b> | <b>100.00%</b> |

As of December 31, 2007 and 2006, the Plan's domestic equity securities did not include any of the Company's common stock. The Plan sold \$793,000 or 19,554 shares of the Company's common stock during the year ended December 31, 2006. The plan made no purchases of the Company's stock during 2007, and had purchases totaling \$6,000 or 172 shares of the Company's common stock for the year ended December 31, 2006. Dividends on the Company's common stock received by the plan totaled \$10,000 for 2006.

Estimated future benefit payments (including expected future service as appropriate):

| (Dollars in thousands) |                 |
|------------------------|-----------------|
| 2008                   | \$ 482          |
| 2009                   | 590             |
| 2010                   | 615             |
| 2011                   | 664             |
| 2012                   | 718             |
| 2013-2017              | 4,885           |
|                        | <b>\$ 7,954</b> |

Expenses incurred and charged against operations with regard to all of the Company's retirement plans were as follows:

| (Dollars in thousands) | Years Ended December 31, |                 |                 |
|------------------------|--------------------------|-----------------|-----------------|
|                        | 2007                     | 2006            | 2005            |
| Pension                | \$ 631                   | \$ 539          | \$ 1,146        |
| Profit-sharing         | 1,424                    | 900             | 479             |
|                        | <b>\$ 2,055</b>          | <b>\$ 1,439</b> | <b>\$ 1,625</b> |

The Company expects to contribute approximately \$780,000 to the pension plan in 2008, but reserves the right to contribute between the minimum required and maximum deductible amounts as determined under applicable federal laws.

Effective January 1, 2006, amendments were made to our pension plan and 401(k) savings plan. On this date a new benefit formula began to apply only to participants who had not then attained age 45 or who did not have five years of service. Concurrently, changes in our 401(k) plan began to be effective for new employees hired on or after this date or for employees who were under the age of 45 or who had attained at least five years of service.



**Note 17 Post-Retirement Benefits**

The following sets forth the plan's funded status and amounts recognized in the Company's accompanying consolidated financial statements at December 31:

| (Dollars in thousands)                         | 2007     | 2006     |
|------------------------------------------------|----------|----------|
| <b>Change in benefit obligation:</b>           |          |          |
| Benefit obligation at beginning of year        | \$ 506   | \$ 548   |
| Interest cost                                  | 28       | 30       |
| Actuarial (gain)/loss                          | 86       | (22)     |
| Benefits paid                                  | (55)     | (50)     |
| Benefit obligation at end of year              | 565      | 506      |
| <b>Change in plan assets:</b>                  |          |          |
| Fair value of plan assets at beginning of year |          |          |
| Employer contribution                          | 55       | 50       |
| Benefits paid                                  | (55)     | (50)     |
| Fair value of plan assets at end of year       |          |          |
| Funded status                                  | \$ (565) | \$ (506) |

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost using an October 31 measurement date are as follows:

|                                                                                                              | 2007  | 2006  |
|--------------------------------------------------------------------------------------------------------------|-------|-------|
| <b>Weighted-average assumptions used to determine benefit obligation as of measurement date:</b>             |       |       |
| Discount rate                                                                                                | 6.00% | 5.75% |
| <b>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:</b> |       |       |
| Discount rate                                                                                                | 5.75% | 5.75% |
| <b>Assumed health care cost trend rates at December 31:</b>                                                  |       |       |
| Health care cost trend rate assumed for next year                                                            | 5.00% | 5.00% |
| Year that the rate reaches the ultimate trend rate                                                           | 2007  | 2006  |

Components of net periodic benefit cost and other amounts recognized in other comprehensive income are as follows:

| (Dollars in thousands)                                | Years Ended December 31, |       |       |
|-------------------------------------------------------|--------------------------|-------|-------|
|                                                       | 2007                     | 2006  | 2005  |
| Interest cost                                         | \$ 27                    | \$ 30 | \$ 31 |
| Amortization of transition obligation                 | 32                       | 32    | 31    |
| Net periodic benefit cost                             | 59                       | 62    | 62    |
| Net (gain) loss                                       | 86                       | (10)  |       |
| Transition obligation                                 |                          | 190   |       |
| Amortization of transition obligation                 | (31)                     |       |       |
| Total amount recognized in other comprehensive income | 55                       | 180   |       |



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|                                                                              | <u>Years Ended December 31,</u> |               |              |
|------------------------------------------------------------------------------|---------------------------------|---------------|--------------|
| Total recognized in net periodic benefit cost and other comprehensive income | <u>\$ 114</u>                   | <u>\$ 242</u> | <u>\$ 62</u> |

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The estimated net loss, transition and prior service cost for the retiree medical plan that will be amortized from accumulated other comprehensive income into periodic benefit cost over the next fiscal year are \$2,000, \$31,000 and \$0, respectively.

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement benefit plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects at the end of 2007:

| (Dollars in thousands)                                                                | One-Percentage Point |          |
|---------------------------------------------------------------------------------------|----------------------|----------|
|                                                                                       | Increase             | Decrease |
| Effect on total of service and interest cost                                          | \$ 2                 | \$ (2)   |
| Effect on postretirement benefit obligation                                           | 44                   | (39)     |
| Estimated future benefit payments (including expected future service as appropriate): |                      |          |

(Dollars in thousands)

|           |        |
|-----------|--------|
| 2008      | \$ 58  |
| 2009      | 57     |
| 2010      | 56     |
| 2011      | 55     |
| 2012      | 54     |
| 2013-2017 | 248    |
|           | \$ 528 |

The Company expects to contribute approximately \$58,000 to the post-retirement medical plan in 2008.

### Note 18 Share-Based Compensation

The Company's 1999 and 2004 stock incentive programs are long-term retention programs intended to attract, retain, and provide incentives for key employees and non-employee directors in the form of incentive and non-qualified stock options and restricted stock.

#### *Stock Options*

With the exception of non-qualified options granted to directors under the 1999 and 2004 plans, which in some cases may be exercised at any time prior to expiration and in some other cases may be exercised at intervals less than one year following the grant date, incentive stock options granted under the plans may not be exercised in whole or in part within one year following the date of the grant, as these incentive stock options become exercisable in 25% increments ratably over the four year period following the grant date. The options are granted at an exercise price at least equal to the fair value of the common stock at the date of grant and have terms ranging from five to ten years. No options were granted under the 1999 plan after January 2, 2004, and the plan is closed other than for any options still unexercised and outstanding. The 2004 plan is the only plan from which new share-based compensation grants may be issued.

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Activity in the Company's stock option plans is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

|                                                                | 2007     |                                 | 2006     |                                 | 2005     |                                 |
|----------------------------------------------------------------|----------|---------------------------------|----------|---------------------------------|----------|---------------------------------|
|                                                                | Shares   | Weighted Average Exercise Price | Shares   | Weighted Average Exercise Price | Shares   | Weighted Average Exercise Price |
| Outstanding at January 1                                       | 308,368  | \$ 24.26                        | 319,218  | \$ 22.21                        | 313,685  | \$ 20.63                        |
| Granted                                                        | 41,445   | 39.25                           | 43,800   | 32.24                           | 47,846   | 30.92                           |
| Exercised                                                      | (12,964) | 19.91                           | (47,801) | 17.59                           | (22,251) | 17.77                           |
| Expired/Forfeited                                              | (465)    | 28.53                           | (6,849)  | 26.41                           | (20,062) | 23.21                           |
| Outstanding at December 31                                     | 336,384  | 26.27                           | 308,368  | 24.26                           | 319,218  | 22.21                           |
| Exercisable at December 31                                     | 246,366  | 23.42                           | 198,676  | 21.39                           | 180,399  | 19.18                           |
| Weighted-average fair value of options granted during the year | \$ 9.25  |                                 | \$ 7.38  |                                 | \$ 9.08  |                                 |

The aggregate intrinsic value of 336,384 and 308,368 stock options outstanding at December 31, 2007 and 2006 was \$2.2 million and \$4.8 million, respectively. The aggregate intrinsic value of 246,366 and 198,676 stock options exercisable at December 31, 2007 and 2006 was \$2.1 million and \$3.7 million, respectively.

Information pertaining to options outstanding at December 31, 2007, is as follows:

| Options Outstanding |                    |                                             |                                 | Options Exercisable |                                 |                                             |
|---------------------|--------------------|---------------------------------------------|---------------------------------|---------------------|---------------------------------|---------------------------------------------|
|                     | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Outstanding  | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
| \$11.39 \$16.00     | 53,919             | 3.8 years                                   | \$ 14.87                        | 53,919              | \$ 14.87                        |                                             |
| \$16.01 \$21.00     | 33,314             | 2.8 years                                   | 18.65                           | 33,314              | 18.65                           |                                             |
| \$21.01 \$26.00     | 54,769             | 5.1 years                                   | 22.49                           | 54,631              | 22.48                           |                                             |
| \$26.01 \$31.00     | 77,540             | 6.2 years                                   | 27.48                           | 62,127              | 27.48                           |                                             |
| \$31.01 \$36.00     | 75,397             | 7.7 years                                   | 32.13                           | 34,750              | 32.18                           |                                             |
| \$36.01 \$39.74     | 41,445             | 9.1 years                                   | 39.25                           | 7,625               | 38.42                           |                                             |
|                     | 336,384            | 6.0 years                                   | 26.27                           | 246,366             | 23.42                           | 5.3 years                                   |

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options' vesting periods. The following weighted-average assumptions were used in valuing options issued:

|                         | 2007    | 2006    | 2005     |
|-------------------------|---------|---------|----------|
| Dividend yield          | 1.88%   | 2.15%   | 2.19%    |
| Expected life           | 7 years | 7 years | 10 years |
| Expected volatility     | 18%     | 19%     | 24%      |
| Risk-free interest rate | 4.65%   | 4.49%   | 4.24%    |

Prior to January 1, 2006, the Company's stock option plans were accounted for under the recognition and measurement provisions of APB Opinion No. 25 ("Opinion 25"), *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation (as amended by Statement No. 148, Accounting for Stock-Based*



*Compensation Transition and Disclosure*) (collectively "Statement No. 123"). No share-based employee compensation cost was recognized in the Company's consolidated statements of income through December 31, 2005, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table presents pro forma net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards for years ended December 31, 2005:

(Dollars in thousands, except per share data)

|                                                                                                                                |                  |
|--------------------------------------------------------------------------------------------------------------------------------|------------------|
| Net income, as reported                                                                                                        | \$ 16,655        |
| Less, total share-based employee compensation expense determined under the fair value based method, net of related tax effects | 280              |
| <b>Pro forma net income</b>                                                                                                    | <b>\$ 16,375</b> |
| Earnings per share:                                                                                                            |                  |
| Basic as reported                                                                                                              | \$ 1.95          |
| Basic pro forma                                                                                                                | 1.91             |
| Diluted as reported                                                                                                            | \$ 1.93          |
| Diluted pro forma                                                                                                              | 1.90             |

As a result of adopting Statement No. 123R on January 1, 2006, earnings before income taxes for the year ended December 31, 2007 and 2006 were lower by \$424,000 and \$536,000, respectively, than if share-based compensation had continued to be accounted for under Opinion 25. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$148,000 and \$204,000 for the year ended December 31, 2007 and 2006, respectively.

#### *Restricted Stock*

The Company from time-to-time also grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's stock. The value of the stock awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expense, equal to the total value of such awards, ratably over the vesting period of the stock grants. Grants to employees have typically vested over a 48-month period, and beginning in 2007, some grants cliff vest after four years. Grants to non-employee directors typically vest within a 12-month period.

All restricted stock agreements are conditioned upon continued employment. Termination of employment prior to a vesting date, as described below, would terminate any interest in non-vested shares. Prior to vesting of the shares, as long as employed by the Company, the key employees and non-employee directors will have the right to vote such shares and to receive dividends paid with respect to such shares. All restricted shares will fully vest in the event of change in control of the Company or upon the death of the recipient.

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Nonvested restricted stock for the year ended December 31, 2007 is summarized in the following table. All information has been retroactively adjusted for stock dividends and stock splits.

| Restricted Stock                | Shares        | Weighted-Average<br>Grant-Date Fair Value |
|---------------------------------|---------------|-------------------------------------------|
| Nonvested at January 1          | 50,883        | \$ 27.32                                  |
| Granted                         | 36,061        | 37.39                                     |
| Vested                          | (16,981)      | 27.57                                     |
| Forfeited                       | (44)          | 31.97                                     |
| <b>Nonvested at December 31</b> | <b>69,919</b> | <b>31.75</b>                              |

The Company granted 36,061, 28,807, and 18,472 shares in 2007, 2006, and 2005, respectively. The weighted-average-grant-date fair value of restricted shares granted in 2007, 2006, and 2005 was \$37.39, \$31.96, and \$31.14, respectively. Compensation expense of \$578,000, \$447,000, and \$275,000 was recorded in 2007, 2006, and 2005, respectively.

The vesting schedule of these shares as of December 31, 2007 is as follows:

|      | Shares        |
|------|---------------|
| 2008 | 13,968        |
| 2009 | 23,299        |
| 2010 | 9,297         |
| 2011 | 23,355        |
|      | <b>69,919</b> |

As of December 31, 2007, there was \$2.0 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. The cost is expected to be recognized over a weighted-average period of 2.54 years as of December 31, 2007. The total fair value of shares vested during the years ended December 31, 2007 and 2006 was approximately \$951,000.

### *Employee Stock Purchase Plan*

The 2002 Employee Stock Purchase Plan permits eligible employees to purchase Company stock at a 15% discounted price. As a result of adopting Statement No. 123R, the Company recognized \$108,000 and \$75,000, respectively, in share based compensation expense for the years ended December 31, 2007 and 2006.

### **Note 19 Stock Repurchase Program**

In February 2004, the Company's Board of Directors authorized a repurchase program to acquire up to 250,000 shares of its outstanding common stock. This program superseded any previously announced programs that may have had remaining available shares for repurchase. Under the announced stock repurchase program, the Company did not repurchase any shares during the years ended December 31, 2007, 2006 and 2005. Under other arrangements where directors or officers sold or surrendered currently owned shares to the Company to acquire proceeds for exercising stock options or paying taxes on currently vesting restricted stock, the Company repurchased 2,474, 13,149, and 8,467 shares at a cost of \$92,000, \$443,000, and \$256,000 in 2007, 2006, and 2005, respectively.

**Note 20 Lease Commitments**

The Company's subsidiaries were obligated at December 31, 2007, under certain noncancelable operating leases extending to the year 2030 pertaining to banking premises and equipment. Some of the leases provide for the payment of property taxes and insurance and contain various renewal options. The exercise of renewal options is, of course, dependent upon future events. Accordingly, the following summary does not reflect possible additional payments due if renewal options are exercised.

Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with initial or remaining terms in excess of one year are as follows:

(Dollars in thousands)

|                           |           |
|---------------------------|-----------|
| Years Ending December 31, |           |
| 2008                      | \$ 3,753  |
| 2009                      | 3,326     |
| 2010                      | 3,144     |
| 2011                      | 2,834     |
| 2012                      | 2,738     |
| Thereafter                | 6,002     |
|                           | <hr/>     |
|                           | \$ 21,797 |
|                           | <hr/>     |

Total lease expense for the years ended December 31, 2007, 2006, and 2005 was \$3.3 million, \$2.9 million and \$2.7 million, respectively.

**Note 21 Contingent Liabilities**

The Company and its subsidiaries are involved at times in various litigation arising in the normal course of business. In the opinion of management, there is no pending or threatened litigation that will have a material effect on the Company's consolidated financial position or results of operations.

**Note 22 Related Party Transactions**

During 2007 and 2006, the Company's banking subsidiaries had loan and deposit relationships with certain related parties, principally directors and executive officers, their immediate families and their business interests. All of these relationships were in the ordinary course of business. Loans outstanding to this group (including immediate families and business interests) totaled \$27.4 million and \$35.8 million at December 31, 2007 and 2006 respectively. During 2007, \$8.0 million of new loans were made to this group while repayments of \$18.0 million were received during the year. Other changes resulted in an increase of \$1.6 million. Related party deposits totaled approximately \$24.0 million and \$25.3 million at December 31, 2007 and 2006, respectively.

**Note 23 Financial Instruments with Off-Balance Sheet Risk**

The Company's subsidiaries are parties to credit related financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Such commitments involve, to varying degrees, elements of credit, interest rate, or liquidity risk in excess of the amounts recognized in the consolidated balance sheets. The contract amounts of these instruments express the extent of involvement the subsidiaries have in particular classes of financial instruments.

The subsidiaries' exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees is represented by the contractual amount of those instruments. The subsidiaries use the

same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments. At December 31, 2007 and 2006, the following financial instruments, whose contract amounts represent credit risk, were outstanding:

|                                                    | 2007              | 2006              |
|----------------------------------------------------|-------------------|-------------------|
| Commitments to extend credit                       | \$ 477,307        | \$ 383,233        |
| Standby letters of credit and financial guarantees | 11,385            | 10,697            |
|                                                    | <b>\$ 488,692</b> | <b>\$ 393,930</b> |

***Commitments to Extend Credit***

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The subsidiary banks evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the subsidiaries upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and personal guarantees. Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn to the extent to which the banking subsidiaries are committed.

***Standby Letters of Credit and Financial Guarantees***

Standby letters of credit and financial guarantees are conditional commitments issued by the banking subsidiaries to guarantee the performance of a customer to a third party. Those letters of credit and guarantees are primarily issued to support public and private borrowing arrangements. Essentially, all standby letters of credit have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the customer.

**Note 24 Fair Value of Financial Instruments**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

***Cash and Cash Equivalents***

The carrying amount is a reasonable estimate of fair value.



***Investment Securities***

Securities available for sale are valued at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities. Securities held to maturity are valued at quoted market prices or dealer quotes. The carrying value of Federal Reserve Bank and Federal Home Loan Bank stock approximates fair value based on their redemption provisions. The carrying value of the Company's investment in unconsolidated subsidiaries approximates fair value.

***Mortgage Loans Held for Sale***

Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices.

***Loans***

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

***Deposit Liabilities***

The fair values disclosed for demand deposits (e.g., interest and non-interest bearing checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

***Federal Funds Purchased and Securities Sold Under Agreements to Repurchase***

The carrying amount of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values.

***Other Borrowings***

The fair value of other borrowings is estimated using discounted cash flow analysis on the Company's current incremental borrowing rates for similar types of instruments.

***Accrued Interest***

The carrying amounts of accrued interest approximate fair value.

*Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees*

The fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated costs to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The estimated fair value, and related carrying amount, of the Company's financial instruments are as follows:

| (Dollars in thousands)                                                     | December 31,    |            |                 |            |
|----------------------------------------------------------------------------|-----------------|------------|-----------------|------------|
|                                                                            | 2007            |            | 2006            |            |
|                                                                            | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <b>Financial assets:</b>                                                   |                 |            |                 |            |
| Cash and cash equivalents                                                  | \$ 95,333       | \$ 95,333  | \$ 78,406       | \$ 78,406  |
| Investment securities                                                      | 258,509         | 258,267    | 210,391         | 210,550    |
| Loans, net and loans held for sale                                         | 2,073,828       | 2,068,974  | 1,761,398       | 1,744,486  |
| Accrued interest receivable                                                | 11,865          | 11,865     | 11,760          | 11,760     |
| <b>Financial liabilities:</b>                                              |                 |            |                 |            |
| Deposits                                                                   | 1,927,889       | 1,869,469  | 1,706,715       | 1,633,483  |
| Federal funds purchased and securities sold under agreements to repurchase | 296,186         | 296,186    | 203,105         | 203,105    |
| Other borrowings                                                           | 143,860         | 143,529    | 90,416          | 90,928     |
| Accrued interest payable                                                   | 6,937           | 6,937      | 8,918           | 8,918      |
| <b>Unrecognized financial instruments:</b>                                 |                 |            |                 |            |
| Commitments to extend credit                                               | 477,307         | 474,027    | 383,233         | 374,622    |
| Standby letters of credit and financial guarantees                         | 11,385          | 11,385     | 10,697          | 10,697     |

**Note 25 Regulatory Matters**

The Company and its banking subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its subsidiaries must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet-items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiaries to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, at December 31, 2007 and 2006, that the Company and its subsidiaries met all capital adequacy requirements to which they are subject.

As of their most recent regulatory examinations, the Company and its subsidiaries were considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well

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capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events subsequent to the most recent examinations that management believes have changed the institutions' category.

Actual capital amounts and ratios are presented in the table below:

|                                                     | Actual     |        | Minimum Capital Requirement |       | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|-----------------------------------------------------|------------|--------|-----------------------------|-------|--------------------------------------------------------------------------|--------|
|                                                     | Amount     | Ratio  | Amount                      | Ratio | Amount                                                                   | Ratio  |
| <b>(Dollars in thousands)</b>                       |            |        |                             |       |                                                                          |        |
| <b>December 31, 2007:</b>                           |            |        |                             |       |                                                                          |        |
| Total risk-based capital (to risk-weighted assets): |            |        |                             |       |                                                                          |        |
| Consolidated                                        | \$ 218,963 | 10.89% | \$ 160,827                  | 8.00% | n/a                                                                      | n/a    |
| South Carolina Bank and Trust, N.A.                 | 174,079    | 10.76% | 129,375                     | 8.00% | 161,719                                                                  | 10.00% |
| South Carolina Bank and Trust of the Piedmont, N.A. | 23,937     | 10.71% | 17,873                      | 8.00% | 22,341                                                                   | 10.00% |
| The Scottish Bank, N.A.                             | 18,135     | 10.62% | 13,656                      | 8.00% | 17,070                                                                   | 10.00% |
| Tier 1 capital (to risk-weighted assets):           |            |        |                             |       |                                                                          |        |
| Consolidated                                        | 193,837    | 9.64%  | 80,413                      | 4.00% | n/a                                                                      | n/a    |
| South Carolina Bank and Trust, N.A.                 | 153,846    | 9.51%  | 64,687                      | 4.00% | 97,031                                                                   | 6.00%  |
| South Carolina Bank and Trust of the Piedmont, N.A. | 21,142     | 9.46%  | 8,937                       | 4.00% | 13,405                                                                   | 6.00%  |
| The Scottish Bank, N.A.                             | 16,260     | 9.53%  | 6,828                       | 4.00% | 10,242                                                                   | 6.00%  |
| Tier 1 capital (to average assets):                 |            |        |                             |       |                                                                          |        |
| Consolidated                                        | 193,837    | 8.42%  | 80,413                      | 4.00% | n/a                                                                      | n/a    |
| South Carolina Bank and Trust, N.A.                 | 153,846    | 7.75%  | 64,687                      | 4.00% | 80,859                                                                   | 5.00%  |
| South Carolina Bank and Trust of the Piedmont, N.A. | 21,142     | 7.53%  | 8,937                       | 4.00% | 11,171                                                                   | 5.00%  |
| The Scottish Bank, N.A.                             | 16,260     | 9.66%  | 6,828                       | 4.00% | 8,535                                                                    | 5.00%  |
| <b>December 31, 2006:</b>                           |            |        |                             |       |                                                                          |        |
| Total risk-based capital (to risk-weighted assets): |            |        |                             |       |                                                                          |        |
| Consolidated                                        | \$ 191,018 | 11.36% | \$ 134,486                  | 8.00% | n/a                                                                      | n/a    |
| South Carolina Bank and Trust, N.A.                 | 166,528    | 11.18% | 119,201                     | 8.00% | 149,001                                                                  | 10.00% |
| South Carolina Bank and Trust of the Piedmont, N.A. | 21,348     | 11.12% | 15,360                      | 8.00% | 19,200                                                                   | 10.00% |
| Tier 1 capital (to risk-weighted assets):           |            |        |                             |       |                                                                          |        |
| Consolidated                                        | 169,949    | 10.11% | 67,243                      | 4.00% | n/a                                                                      | n/a    |
| South Carolina Bank and Trust, N.A.                 | 147,850    | 9.92%  | 59,601                      | 4.00% | 89,401                                                                   | 6.00%  |
| South Carolina Bank and Trust of the Piedmont, N.A. | 18,947     | 9.87%  | 7,680                       | 4.00% | 11,520                                                                   | 6.00%  |
| Tier 1 capital (to average assets):                 |            |        |                             |       |                                                                          |        |
| Consolidated                                        | 169,949    | 8.11%  | 83,844                      | 4.00% | n/a                                                                      | n/a    |
| South Carolina Bank and Trust, N.A.                 | 147,850    | 8.02%  | 73,762                      | 4.00% | 92,202                                                                   | 5.00%  |
| South Carolina Bank and Trust of the Piedmont, N.A. | 18,947     | 7.56%  | 10,021                      | 4.00% | 12,527                                                                   | 5.00%  |

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**Note 26 Condensed Financial Statements of Parent Company**

Financial information pertaining only to SCBT Financial Corporation is as follows:

**Condensed Balance Sheets**

| (Dollars in thousands)                            | December 31,      |                   |
|---------------------------------------------------|-------------------|-------------------|
|                                                   | 2007              | 2006              |
| <b>ASSETS</b>                                     |                   |                   |
| Cash                                              | \$ 1,045          | \$ 1,004          |
| Investment securities available for sale          | 847               | 956               |
| Investment in subsidiaries                        | 256,511           | 199,976           |
| Less allowance for loan losses                    | (34)              | (34)              |
| Other assets                                      | 1,602             | 1,342             |
| <b>Total assets</b>                               | <b>\$ 259,971</b> | <b>\$ 203,244</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                   |                   |
| Liabilities                                       | \$ 44,906         | \$ 41,356         |
| Shareholders' equity                              | 215,065           | 161,888           |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 259,971</b> | <b>\$ 203,244</b> |

**Condensed Statements of Income**

| (Dollars in thousands)                                                                | Years Ended December 31, |                  |                  |
|---------------------------------------------------------------------------------------|--------------------------|------------------|------------------|
|                                                                                       | 2007                     | 2006             | 2005             |
| <b>Income:</b>                                                                        |                          |                  |                  |
| Dividends from subsidiaries                                                           | \$ 16,261                | \$ 5,981         | \$ 5,531         |
| Operating income                                                                      | 50                       | 7                | 18               |
| <b>Total income</b>                                                                   | <b>16,311</b>            | <b>5,988</b>     | <b>5,549</b>     |
| <b>Operating expenses</b>                                                             | <b>3,898</b>             | <b>2,977</b>     | <b>1,908</b>     |
| Income before income tax benefit and equity in undistributed earnings of subsidiaries | 12,413                   | 3,011            | 3,641            |
| Applicable income tax benefit                                                         | 1,320                    | 1,016            | 629              |
| Equity in undistributed earnings of subsidiaries                                      | 7,832                    | 15,778           | 12,385           |
| <b>Net income</b>                                                                     | <b>\$ 21,565</b>         | <b>\$ 19,805</b> | <b>\$ 16,655</b> |

## Condensed Statements of Cash Flows

| (Dollars in thousands)                                                            | Years Ended December 31, |           |           |
|-----------------------------------------------------------------------------------|--------------------------|-----------|-----------|
|                                                                                   | 2007                     | 2006      | 2005      |
| <b>Cash flows from operating activities:</b>                                      |                          |           |           |
| Net income                                                                        | \$ 21,565                | \$ 19,805 | \$ 16,655 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |           |           |
| Depreciation and amortization                                                     | 37                       | 39        | 10        |
| Provision for loan losses                                                         | 34                       | 6         | 48        |
| Share-based compensation                                                          | 1,002                    | 983       |           |
| Decrease (increase) in other assets                                               | 11                       | 110       | (136)     |
| (Decrease) increase in other liabilities                                          | (295)                    | 59        | (277)     |
| Undistributed earnings of subsidiaries                                            | (7,832)                  | (15,778)  | (12,385)  |
| Net cash provided by operating activities                                         | 14,522                   | 5,224     | 3,915     |
| <b>Cash flows from investing activities:</b>                                      |                          |           |           |
| Proceeds from sale of investment securities available for sale                    | 111                      |           |           |
| Purchases of investment securities available for sale                             | (100)                    | (100)     |           |
| Payments for investments in subsidiaries                                          | (9,009)                  |           | (40,916)  |
| Recoveries on loans previously charged off                                        | 4                        | 17        | 15        |
| Other, net                                                                        | (39)                     | (18)      | 623       |
| Net cash used in investing activities                                             | (9,033)                  | (101)     | (40,278)  |
| <b>Cash flows from financing activities:</b>                                      |                          |           |           |
| Proceeds from issuance of long-term debt                                          |                          |           | 41,239    |
| Cash dividends paid                                                               | (6,227)                  | (5,911)   | (5,527)   |
| Common stock issuance                                                             | 613                      | 423       | 876       |
| Common stock repurchased                                                          | (92)                     | (443)     | (252)     |
| Stock options exercised                                                           | 258                      | 841       | 395       |
| Net cash provided by (used in) financing activities                               | (5,448)                  | (5,090)   | 36,731    |
| Net increase in cash and cash equivalents                                         | 41                       | 33        | 368       |
| Cash and cash equivalents at beginning of period                                  | 1,004                    | 971       | 603       |
| Cash and cash equivalents at end of period                                        | \$ 1,045                 | \$ 1,004  | \$ 971    |

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